National Grid Electricity Transmission plc
Annual Report and Accounts 2018/19

Company number 2366977

Contents

Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission, NGET) is a subsidiary of National Grid plc (National Grid), based in the United Kingdom (UK). We own and operate the regulated electricity transmission network in England and Wales and are also the system operator for the high-voltage electricity transmission networks in Scotland. We do not own the Scottish networks. Our networks comprise approximately 7,191 kilometres of overhead line, 1,560 kilometres of underground cable and 347 substations. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use. See pages 6 and 7 for further details.

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

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	**998**	1,033	(3.4%)
Exceptional items	**(237)**	-	-
Total operating profit [1]	**761**	1,033	(26%)
Cash generated from operations	**1,323**	1,683	(20%)
Regulated assets[2]	**13,537**	13,045	3.8%

1 See page 25 for further details.
2 See page 28 for further details.

	2018/19 £m	2017/18 £m
Return on equity	**13.7%**	13.1%

Non-financial highlights

	2018/19	2017/18
Number of employees	**3,380**[1]	3,679
Network reliability[2]	**99.999984%**	99.999984%

1. Includes 675 system operator employees.
2. See page 11 for further details on our KPI's

What we do – Electricity

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

The UK electricity industry has five main sectors.

1. Generation

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

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

2. Interconnectors

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

Great Britain (GB) is linked via interconnectors with Ireland, Northern Ireland, France, and Netherlands. National Grid plc is continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to consumers. These include two interconnectors currently in construction to France and Norway, a link to Denmark and exploring opportunities for future projects.

National Grid, through separate companies held outside of National Grid Electricity Transmission, sells capacity on its UK interconnectors (with France, Belgium and the Netherlands) through auctions.

3. Transmission

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

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

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

4. Distribution

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

We do not own or operate electricity distribution networks.

5. Supply

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

We do not sell electricity to consumers.

What we do – Regulation

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

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

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

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

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

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

In January 2017, National Grid issued a joint statement with Ofgem and the UK Government about the enhanced role of the ESO function and the intention to establish a greater separation between this and the rest of National Grid. Since then, we have created a legally separate electricity transmission system operator company (ESO) within the National Grid Group. We have also sought and received permission to transfer parts of the NGET transmission licence to the ESO with effect from April 2019; these accounts therefore include the ESO but from 2019/20 will not. The ESO function has consulted on its longer-term goals and its plan for the future, proposing how it will take an enhanced role in facilitating the transition to a low-carbon energy system.

It is responsible for making sure supply and demand of electricity is balanced in real time across Great Britain. It is also the ESO for the Scottish networks, but does not own them.

Whilst the existing eight year RIIO price control applies to the electricity SO operations, these activities are also subject to additional regulatory incentives schemes which are reviewed more frequently. Ofgem has consulted on how the ESO incentive schemes will develop in the remaining part of the RIIO-T1 period. This aims to encourage the ESO to operate the system efficiently and to proactively identify how it can maximise consumer benefits across the full range of its activities. 2018/19 was the first year of implementing these revised incentive schemes.

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

Using information we have submitted, along with independent assessments, Ofgem determines the efficient level of expected costs necessary for these deliverables to be achieved. 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 the outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

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

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

Allowed revenue to fund totex costs is split between RIIO 'fast' and 'slow' money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the year of expenditure. Slow money is added to our Regulatory Asset Value (RAV) – effectively the regulatory IOU. (For more details on the sharing factors under RIIO, please see the table below.)

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

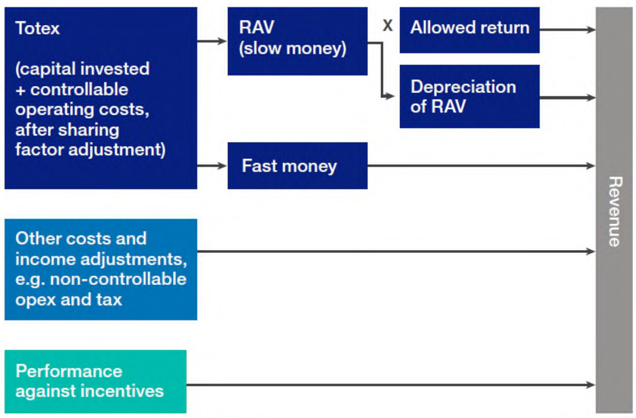
- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

The current price controls are set to run for an eight-year period and will end on 31 March 2021.

Competition in onshore transmission

Ofgem stated in its final decision on the RIIO-T1 control for electricity transmission that it would consider holding a competition to appoint the constructor and owner of suitably large new transmission projects. In the absence of the legislation needed to support a competition, at the end of July 2018, and after consultation, Ofgem expressed an intention to fund the delivery of the Hinkley- Seabank electricity transmission project by NGET using the 'Competition Proxy Model'. This regulatory model seeks to replicate the outcome of an efficient competitive process for the financing, construction and operation of the project and to provide National Grid Electricity Transmission with a project-specific revenue allowance over the period of its construction and 25 years of operation, but with reduced allowances reflecting prices that Ofgem has observed in other competitions. In addition, in September 2018 Ofgem consulted on the commercial and regulatory framework for the Special Purpose Vehicle (SPV) model of competition in onshore electricity transmission. This is an alternative model that could in the future be used for projects meeting the competition criteria (new, high value and separable). Under this model, the incumbent transmission owner would run a competition for the construction, financing, and operation of a new, separable and high-value project through a project-specific SPV.

Simplified illustration of RIIO regulatory building blocks:



Allowed returns

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

Cost of equity (post-tax real)	7.0%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (1.91% for 2018/19)
Notional gearing	60.0%
Vanilla WACC[1]	3.95%

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

Sharing factors and fast money

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

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

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

2 Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future consumers.

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

RIIO-T2

Ofgem has started work on the next round of RIIO price controls, (RIIO-T2) for the energy network sectors it regulates, covering 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 from electricity transmission to other sectors; 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. Ofgem is consulting separately on the RIIO-T2 price control for the ESO.

We and other stakeholders will continue to work with Ofgem to develop the framework and parameters for RIIO-T2. 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.

Principal operations

Overview

Safety remains a top priority at National Grid. This year, as a group, we maintained our lost time injury frequency rate at equivalent to one lost time injury per million hours worked. This is consistent with the best performing organisations worldwide, but this also means striving relentlessly to do better – our ambition is to ensure that all our employees and contractors are able to go home safely at the end of each and every day. We have continued our campaign of making safe working second nature to all our employees and contractors, and as instinctive as putting on your seat belt before driving.

The energy we transport is intrinsically hazardous; our operations therefore have to comply with laws and regulations set by government agencies responsible for health, safety and environmental standards.

We continued our focus on costs and efficiency for 18/19. The resulting cost efficiency and restructuring programmes will continue to drive performance for both customers and shareholders.

The Board noted the progress we are making on our strategic priorities. Against the background of delivering on our priority of optimising operational performance, discussions continued with Ofgem on the RIIO-T2 price control. The overall framework proposals in the sector-specific consultation are a step in the right direction but concerns remain that the proposals, as currently set out, will not bring about the change consumers need.

The decision to apply a new and untested regulatory model to the Hinkley-Seabank Connection Project was disappointing. The model seeks to impose on us the results of simulated competition without giving the freedom of choice to decide to participate and allocate scarce capital to the project. We will review our option to challenge the decision when it becomes possible to do so.

During the year both the Nugen and Horizon nuclear projects cancelled their proposed connection agreements. The regulatory arrangements we have in place have largely mitigated the economic impact of these cancellations, though we have recognised a net exceptional charge of £137 million for development costs incurred on these projects over the last decade. Note 5 of the financial statements contains additional information.

We completed the first new electricity overhead line route to be built in England and Wales since 2003. The Canterbury to Richborough connection is a 21-kilometre route that was built in only 15 months enabling the connection of the Nemo interconnector to the grid.

Our market continues to be affected by external factors. The energy industry faces considerable uncertainty, as we tackle the challenges of delivering the government's commitments on decarbonisation together with a step change in value for the customer. National Grid Electricity Transmission plc is a crucial and influential partner for delivery of these critical policy requirements and we stand ready to play our part in what must be a combined effort across government, regulators, industry and customers. But we will require a strong policy stance from government and regulators, to set out the framework for the energy market so that it delivers the transformation required.

Summary of our results this year

2018/19 delivered another year of good returns. We exceeded our target of 200-300 basis points outperformance, with a return on equity of 13.7%. This has allowed us to reduce prices to customers and improve our returns to shareholders.

This year we also implemented a long-term efficiency and restructuring programme which means we are planning to maintain this strong performance generating futures savings in operating costs.

Caring for the environment

Our environmental sustainability performance was strong in 2018/19. By embedding sustainability in our business strategy and ensuring it is integral to the way we do business, we deliver positive outcomes for society. We also drive more efficient performance while identifying opportunities and managing risk in a changing environmental and social landscape.

Our approach to environmental sustainability focuses on those areas where we can have the most impact and that are important to our stakeholders. These themes are reducing our greenhouse gasses, managing waste and natural resources efficiently and caring for the natural environment.

Our contribution to wider society

We continue to help shape the debate on creating cleaner, smarter energy networks that future generations can rely on. Our engineering excellence and the work we do on a daily basis keeps the lights on and the energy flowing but we need to find more sustainable and less carbon intensive options.

We recognise that we do not just supply energy to our communities, we are part of them. Strong communities are good for the people who live there, good for our business and good for the wider economy. We ensure our approach to sustainability meets the expectations of our stakeholders. We will be reviewing our strategy, targets and ambition in 2019/20.

We continue to nurture the talent and capability of our employees and our commitment to inclusion and diversity. Our management population is now comprised of 28% women and 12.2% minorities, but we still need to do more. Connecting better with our customers is enabled by diversity of thought and that can only come from diversity of our people.

Giving back to the communities in which we operate is always important to us. Our combined Group-wide contribution was £54 million.

Electricity Transmission Owner

Market Context

Construction of the Hinkley-Seabank Connection Project got underway in summer 2018. We expect to connect our customer, EDF, to our network in 2024. Between now and then, we will add T-pylons to our network for the first time, as well as two new substations and a sealing-end compound. Keen to leave a positive legacy for the communities affected by the project, we are investing in STEM equipment in hundreds of schools, providing construction skills training among the local workforce and awarding contracts to business across the region.

Operational performance

As at 31 March 2019, our Lost Time Injury Frequency Rate (LTIFR) in the UK business was 0.07, which exceeds our target of <0.10, and is our best ever LTIFR performance. 55% of our lost time injuries (LTIs) are as a result of individual issues such as slips, trips and falls and soft tissue injuries from inappropriate lifting and carrying and non-fault road traffic collisions – we are treating these incidents with appropriate focus whilst acknowledging that they do not generally have the potential for more serious harm. Our analysis shows that in 2018/19 the number of incidents with higher potential for harm has been less than expected.

We met our customer satisfaction targets for 2018/19. The figure for our electricity transmission business was 7.9. This exceeds our agreed target of 6.9.

Our electricity transmission business has continued to provide reliable services. This year the figure of our network reliability for Electricity Transmission was 99.999984%. See page 11 for further information on our KPI's.

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.

In order to continue to provide low-cost services which our customers want, we know we must innovate. As part of the joint venture with Scottish Power, we have constructed the Western Link – a HVDC cable which will play an important role in bringing renewable energy from Scotland to homes and businesses in England and Wales, helping the UK to meet its renewable energy targets.

We secured funding of £116 million for a Visual Impact Provision (VIP) scheme in Dorset; a project to underground 5.4 miles (8.8 kilometres) of overhead line and remove 22 pylons in Dorset Area of Outstanding Natural Beauty. We also continued to progress our other VIP projects in Peak East National Park and Snowdonia National Park.

We continue to invest in the health of our assets and to ensure high network reliability. One example is work in overhead lines to improve how we map the operating environment and corrosion. The work supports our long-term strategy for overhead line investment.

System Operator

The System Operator (SO) ensures that Great Brittan's supply and demand are balanced in real-time and it facilitates the connection of assets to the transmission system.

Market context

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

This has made our role in matching supply and demand more challenging, we continued to work with the market making sure we have appropriate tools in place to balance the transmission system. We have worked with our customers and stakeholders to shape the future of the energy market, providing analysis and insight into the changing nature of energy. We also facilitated 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.

Creating an independent System Operator

During 2018/19 we worked with Ofgem to separate the Electricity System Operator (ESO) from the electricity transmission business, implementing strong ethical walls to ensure that the ESO is not influenced by the commercial interests of National Grid Electricity Transmission plc. The ESO now operates as a separate company within National Grid plc, effective from 1 April 2019. It is responsible for making sure supply and demand of electricity is balanced in real time across Great Britain. It is the ESO for networks across the UK, including the Scottish networks, and it treats transmission operators equally.

Operational Performance

As new sources of energy connect to the network, we needed to find smarter ways to balance the system. To help us do this, the SO launched its first System Needs and Product Strategy consultation in 2017/18.

As the use of greater levels of renewable energy sources increases the need balance demand and supply becomes increasingly challenging given the intermittent nature of sources such as wind. We continued to work closely with our stakeholders to ensure grid reliability is understood and systems are capable to meet the needs of our customers.

On 28 September 2018, Ofgem published its decision to allow £65 million of additional allowances for enhanced cyber security costs for the ESO. The allowances relate to spend that has been made over the whole of the RIIO-T1 period. Recognition of allowances related to historic spend benefitted the Return of Equity reported in 2018/19.

Shaping the future of energy

We continue to help facilitate the move to a lower-carbon economy, while simultaneously delivering safe, reliable and affordable energy to the end consumer. In April 2018, new records were set with the system operating without coal for 76 hours and with wind output peaking at over 15 GW. The underlying changes to the generation portfolio meant that on 27 August 2018, the carbon intensity of the system reached a new low of 71g CO2/Kwh.

Investment in innovation continued to advance our strategic ambitions to reduce the cost of delivering a secure, reliable and sustainable electricity transmission system now and in the future with 23 new projects started this financial year. We have also started nine projects looking at supporting the decarbonisation of energy, transport and heat.

The ESO and UK Power Networks continued to work on the Power Potential project to enable more distributed electricity generation across the South East of England. A technical and commercial solution is being developed that will allow electricity generators to connect to the distribution grid and provide transmission services to the ESO, deferring transmission network reinforcements. This new service is a significant step towards UK Power Networks becoming a distribution system operator (DSO) and enabling customers to connect to the network more efficiently. If successful, Power Potential could save energy consumers over £400 million by 2050 and generate an additional 3.72 GW in the South-East of the UK, possibly being rolled out to 59 other transmission sites within the UK.

In July 2017 the UK Government announced plans to ban the sale of new petrol and diesel vehicles from 2040. Meanwhile, our own 'Future Energy Scenarios' analysis suggests the potential for rapid growth in electric vehicles (EVs) through to 2050. As we enter the key phase of discussion and negotiation around the RIIO T-2 Framework for our UK transmission businesses, the role of electric vehicles and the associated electric charging infrastructure in the UK is an area where we will continue to develop and evolve our strategy. For example, we started work with the UK government on a build out of fast-charging stations across the UK highways to meet this demand, and ensure EVs can always find somewhere to charge quickly.

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

Looking ahead

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

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 created RIIO-T2 stakeholder groups to support the formulation of our business plans for the next price control period within Electricity Transmission and the System Operator.

At the Deeside Innovation Centre, the overhead line area and control room are under construction. The first innovation projects are starting to deliver consumer value and contributing to over £21m in savings across UK networks.

In April 2019, NGESO announced its ambition to transform the operation of the electricity system by 2025. Their goal is to be able to operate the system safely and securely at zero carbon whenever there is sufficient renewable generation on-line and available to meet the total national load.

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

Our purpose, vision, strategy and values

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

Our purpose

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

Our purpose is to bring energy to life

In its simplest form '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 amongst 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.

Our vision statement clearly describes the ambitious challenge we have set ourselves – to make sure we deliver value for them every day.

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

Our strategy

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

1) Find new ways of optimising our operational performance

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

2) Look for opportunities to grow our core business

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

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

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

Our values

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

We know that how we deliver is as important as what we deliver. If our purpose is the 'why', our values are the 'how'. They help shape our spirit, attitude and what guides us.

We have to adapt and develop our values to align with the expectations of our customers and communities, without losing sight of the things that make us strong today.

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

'Do the right thing' pulls together our foundational values: keeping each other and the public safe; complying with all the relevant rules, regulations and policies; respecting our colleagues, customers and communities; and, saying what we think and challenging constructively.

'Find a better way' challenges us to focus on performance and continuous improvement for our customers, our shareholders and communities.

Our strategic objectives

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

	Optimise performance	Grow core business	Evolve for the future
Why it's important	Our customers want us to be more efficient, so we must find ways to improve how we run our business.	Delivering strong operational performance provides a foundation from which we can invest in our core business and pursue other opportunities.	We need to future-proof our business against the effects of a changing energy landscape. Our networks are already managing changes to the generation mix, while the needs and expectations of our customers are evolving.
What this means	We need to enhance the customer experience and our productivity 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 operations will be an important factor in our ability to compete and grow.	We continue to look for business development opportunities that are close to our core business. In the UK, onshore transmission projects will continue to be our focus over the next decade.	We are looking to develop new capabilities that are essential for long-term success.
Performance in 2018/19	• Identified savings and began the transition to leaner and more efficient operating models • Commenced embedding our Business Management System (BMS) • Agreed RIIO-T1 reopeners during Autumn 2018, including investment in cyber and physical security.	• Regulated business capex of £925 million. • Delivered our first new overhead line this century in England: Richborough to Canterbury, connecting the Nemo Link Interconnector	• Achieved separation of the Electric System Operator from the UK electricity transmission company; • Continued to participate in debate on decarbonization and supported electric vehicle charging networks;
	The below metrics underpin all of our strategic priorities: Employee engagement; Workforce diversity		

Progress against objectives – key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Find new ways of optimising our operational performance	**Safety – Employee lost time frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis.	**2018/19: 0.07 (UK Group target 0.1)** 2017/18: 0.03 (UK Group target 0.1)
	Network reliability We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans.	**2018/19: 99.999984% (Target 99.9999%)** 2017/18: 99.999984% (Target 99.9999%) There were 3 Loss of Supply incidents in 2018/19, of which 1 was incentivised, 1 non-incentivised and the third not-reportable under the Energy Not Supplied (ENS) incentive scheme. The ENS incentive scheme returned a profit of £3.7 million in 2018/19.
	Customer satisfaction scores Our score in customer satisfaction surveys. Ofgem set a baseline Our customer satisfaction KPI comprises Ofgem's UK electricity transmission customer satisfaction scores. The score represents our baseline targets set by Ofgem for reward or penalty under RIIO (maximum score is 10).	**2018/19: 7.9 out of 10 (Target 6.9)** 2017/18: 7.7 out of 10 (Target 6.9)
	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: 289 KTCO2e** 2017/18: 254 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: 3.8% (Group target 3-5%)** 2017/18: 4.5% **(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: £925 million** 2017/18: £1,000 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. See page 15 for more detail.	**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. Page 6 provides an additional management breakdown. See page 16 for more detail.	**Workforce diversity %** **2018/19: Women: 19.2%** **Ethnic minority: 16.0%** 2017/18: Women: 21.0% Ethnic minority: 15.0%

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

Our business environment

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

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

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 great cost efficiency.
- Our business is pushing for greater affordability and innovative ways to minimise the total cost of energy to consumers.
- National Grid Electricity Transmission has been able to generate £640 million of savings for consumers in the first six years of the RIIO arrangements. We have also volunteered that £480 million of RIIO T1 allowances for electricity transmission investments should be deferred, which will help ease the impact on consumer bills.
- We are helping customers to lower their 'total energy wallet' by enabling electric vehicle infrastructure and encouraging adoption of electric vehicles.

Decentralisation – Energy Security

Commentary

The energy system is in transition from high to low carbon. This change coincides with a shift to 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.

2018/19 developments

In July 2018 the Future Energy Scenarios document, published by the System Operator suggested that by 2050 up to 65% of all generation could be locally produced. In July 2018, the first London streets received Ultra Low Emission Zone status. This has since expanded to the congestion zone. With increasing local electricity demand from cars, and potential for vehicles to both charge and discharge electricity onto the network, balancing demand, supply and power flows will become increasingly complex. Electricity storage and smart demand management will play a key role in easing this complexity.

Our response

During 2018, the UK's transmission network made connection offers of 47 transmission connected batteries, each approximately 50MW. These batteries represent a new type of connection for the transmission grid. They also reflect the emergence of new business models for grid balancing

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.

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. Almost a third of electricity was generated by renewables in 2018 Q3 (source: UK Gov); 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 11. 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 14.
- We are supporting the adoption of electric vehicles through charge point infrastructure, to support decarbonising transport and improving air quality.
- We will continue to support the Paris Agreement and align ourselves with state and local leaders who share our own climate and environmental goals.

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 state-of-the-art machine learning, the ESO team, building on initial research by the Alan Turing Institute, enabled improvement in forecasting for the Solar Power Forecast. This improvement in forecasting enables the decarbonisation and decentralisation of the power grid and delivers efficiency savings to consumers. The team are building on this success to deliver the next generation of Demand Forecasting Capabilities.

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.

Following a European Court ruling, the UK’s Capacity Market scheme was paused, leading to the ESO, in its capacity as EMR Delivery Body, postponing the T-1 auction original scheduled to take place in January 2019, and to the Electricity Settlements Company suspending capacity payments to Capacity Market participants.

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 Electricity 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 work on Hinkley Connection Project in Somerset, for example, will include 5.3 miles (8.5 kilometres) of underground cables across the Mendip Hills instead of installing overhead pylons. This will protect views in this Area of Outstanding Natural Beauty for the community, visitors and future generations.

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.

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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 20.

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 pages 10 and 11.

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 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 9.

We also know that building sufficient capability and leadership capacity (including effective succession planning) is an important factor in delivering our vision and strategy. You can read more about how we are mitigating the risks of not achieving this on pages 19 to 21.

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 11.

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 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 Electricity Transmission.

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

Gender demographic as at 31 March 2019 - NGET

	Male	Female	Total	% Male	% Female
Our Board	4	3	7	57	43
Senior Management	18	12	30	60	40
Whole Company	2,675	635	3,380	81	19

Ethnicity demographic as at 31 March 2019 - NGET

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

White	2,560
Minority	489
Total	**3,049**
White (%)	84%
Minority (%)	16%

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 11. 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 99.9999% availability. You can read more about this on pages 10 and 11, 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.

In the UK, 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 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.

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

Anti-bribery policy

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

To ensure compliance with the UK Bribery Act 2010, we carried out a risk assessment across the Company so we could highlight higher risk areas and make sure adequate procedures were in place to address them. 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 Electricity Transmission Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders. It has overall responsibility for the Company's system of risk management and internal control.

Managing our risks

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

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

Risk management process

Overall risk strategy, policy and process are set at the Group level by National Grid plc with implementation owned by National Grid Electricity Transmission. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks. The process is designed to support the delivery of our vision and strategy, described on page 99.

Our UK Regional risk profile, which is presented to National Grid Electricity Transmission Board biannually, contains the most important gas and electric risks currently facing the company as we endeavour to achieve our strategic objectives. We agree these top risks through implementation of our top-down/bottom-up risk management process including at UK Executive, Electricity Transmission Executive and SO Executive levels.

When determining what our principal risks should be, a broad range of factors are considered. In 2018/19, external events played a large part in the assessment of threats and opportunities. Brexit is not currently one of our principal risks but the implications continue to be kept under review, especially in relation to our access to energy markets and the impacts on interconnector revenues and costs. During the year, the National Grid Plc Brexit working group assessed these issues and devised scenarios to cover the possible outcomes. Based on the worst-case scenario ('no deal'), we determined that the risk of increased costs of tariffs and any possibility that our partners might be compelled to 'switch off' the interconnectors is low. Throughout the year, we engaged with our customers, stakeholders and especially our regulators, as we seek to inform them of the Brexit outcome we believe would be in the best interests of consumers.

The Board also 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 also considered certain aspects of the principal risks in more detail, including cyber security, emerging technology, Hinkley Point transmission line, asset safety and, Ofgem's sector specific RIIO-T2 consultation.

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 reasonable 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 through multiple ways:

- help signal a change in the level of risk exposure associated with specific activities;
- indicate the effectiveness of controls;
- help assess if we are operating within our risk appetite framework.

Generally, the KRIs have been taken from our existing business performance metrics and utilised in a way that helps provide visibility to specific risk issues. The KRIs may be modified as we fully assess their effectiveness in this coming year.

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 aim includes consideration of inherent risks, which in turn, 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 asset failure results in a significant safety and/or environmental event.

Risk trend: Neutral

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

An asset or assets fail on the electricity transmission system leading to a serious loss of supply or higher number of smaller losses of supply than currently experienced

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>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 ongoing monitoring key performance indicators to ensure we meet our transmission performance expectations
Internal and external assurance is in place to help assure that we meet our policies, technical standards and procedures.
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>

Strategic and regulatory risks

Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives as well as failing to have the 'right' strategic plan. We voluntarily accept some risk so we can generate the desired returns from our strategy.

Management of strategic risks focuses on reducing the probability that the assumed risk would materialise and improving the Company's ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. These risks link to our strategic priorities of, 'Look for opportunities to grow our core business' and 'make sure National Grid is better equipped for the future.' The political climate and policy decisions of our regulators this past year were key considerations in assessing our risks.

Risks	Actions taken by management
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 *Competition Proxy or Special Purpose Vehicle Delivery models are introduced into NGET's license and applied to NGET projects.* Risk trend: Neutral *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	• 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.

People

It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.

Risks	Actions taken by management
We cannot attract, recruit, develop or retain people with the right skills and capabilities to deliver our strategy and UK priorities. Risk trend: Neutral	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. We have not yet experienced hiring or retention challenges associated with political uncertainty.

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 30 to 34.

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 Electricity Transmission plc 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 Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

Reviewing the effectiveness of our internal control and risk management

The Board continually monitors and assesses the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. The latest review covered the financial year to 31 March 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. It noted that no deficiencies, significant deficiencies and material weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively

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

Overall compliance strategy, policy and frameworks are set at the National Grid plc Group-level with implementation owned by National Grid Electricity Transmission. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues, through several means including 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. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

The Certificate of Assurance (CoA) from the CEO 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 Electricity Transmission plc (NGET) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGET operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2018/19 on page 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 to 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 financability 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 NGET plc Board review and approve the annual certificates in respect of compliance with certain licence conditions (including Financial Ring-fencing, and Availability of Resources). The Electricity Transmission Financial Ring-fencing certificate was approved by the Board in 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 NGET 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 decreased by £805 million to £3,353 million and operating profit decreased by £272 million to £761 million, which was in line with expectations, the exceptional items covered below and adoption of IFRS15.

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.

Post balance sheet events

On 1 April 2019, the UK Electricity System Operator became a legally separate company, with its own Board of Directors, within the National Grid Group. This change had no impact on the consolidated financial results for the 31 March 2019. We have provided additional disclosure in Notes 2 and 9 to show details of the ESO business disposed of. The business was sold for an enterprise value of £450 million with no transfer of debt from NGET. We have reported the assets and liabilities disposed of as 'held for sale' as at 31 March 2019.

Movements and explanations given in the financial review below exclude the impact of the ESO transfer to held for sale. This allows a fair comparison against prior year figures. The overall impact of the transfer to held for sale will also be given where appropriate.

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, 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 of the financial statements explains in detail the items which are excluded from our adjusted profit measures.

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

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were exceptional items included within operating profit for the year ended 31 March 2019, these related to nuclear development write off and, restructuring programmes. 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	
	2019	2018
	£m	£m
Adjusted operating profit	**998**	1,033
Exceptional items[1]	**(237)**	-
Total operating profit	**761**	1,033

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

Exceptional items

For the year ended 31 March 2019 there were two significant exceptional items, these were the disposal of nuclear development cost and major restructuring programmes.

National Grid Electricity Transmission implemented a major restructuring programme in order to drive a more efficient operation and performance, a charge of £100 million in severance and associated planning and support costs was incurred. Within this cost there is a net charge of £37 million relating to pension costs. The total cash outflow for the year was £47 million.

In November of 2018, Toshiba announced the cancellation of the NuGen project. This plan involved the building of a nuclear power station at Moorside Cumbria, following the announcement, Toshiba terminated its connection agreement with National Grid Electricity Transmission. On the 15th of February 2019, Hitachi terminated its connection agreements in respect of the Horizon projects at Wylfa and Oldbury. On the basis of these developments, we have concluded that it is appropriate to write off the assets we had been developing for over ten years to the value of £150 million. After deduction of cash inflows of £13 million from termination fees, the net disposal charge was £137 million.

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2019	2018
	£m	£m
Adjusted operating profit	**998**	1,033
Adjusted net finance costs	**(157)**	(188)
Adjusted profit before tax	**841**	845
Adjusted taxation	**(164)**	(163)
Adjusted earnings	**677**	682
Exceptional items after tax	**(192)**	-
Remeasurements after tax	**(2)**	7
Earnings	**483**	689

Reconciliation of adjusted 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	
	2019	2018
	£m	£m
Adjusted operating profit excluding timing differences	**1,075**	1,047
Timing differences[1]	**(77)**	(14)
Adjusted operating profit	**998**	1,033
Exceptional items[2]	**(237)**	-
Total operating profit	**761**	1,033

1 In year under-recovery of £77 million compared with an under-recovery in the prior year of £14 million.

2 Details of exceptional items can be found in Note 5 of the financial statements.

Consolidated income statement commentary

	Years ended 31 March	
	2019	2018
	£m	£m
Revenue	**3,353**	4,158
Operating costs	**(2,355)**	(3,125)
Adjusted operating profit	**998**	1,033
Exceptional items	**(237)**	-
Total operating profit	**761**	1,033
Finance income	**7**	1
Finance costs:		
Before exceptional items and remeasurements	**(164)**	(189)
Exceptional items and remeasurements	**(2)**	9
Profit before tax	**602**	854
Taxation:		
Before exceptional items and remeasurements	**(164)**	(163)
Exceptional items and remeasurements	**45**	(2)
Profit after tax	**483**	689

UK Electricity Transmission statutory revenue and costs decreased by approximately £1.2 billion following adoption of IFRS 15, which we applied with effect from 1 April 2018. Revenues we collect from customers but pass onto the Scottish and Offshore transmission operators (TO) at nil margin are now excluded from both revenue and operating costs.

Underlying operating profit decreased by 3%. Net revenues were higher, reflecting the annual RPI uplift and increased incentive income. Regulated controllable costs were slightly higher, with efficiency savings partly offsetting the costs of separating the Electricity System Operator, higher IT run-the-business costs, and inflation. Post-retirement benefit costs were little changed year-on-year. Other costs were higher principally related to provisions against income recognised on early termination of connections.

The increase in depreciation and amortisation charges reflects the ongoing investment driven growth in the asset base.

Revenue

Revenue for the year ended 31 March 2019 decreased by £805 million to £3,353 million. Following the application of IFRS15, the collection of revenue by the ESO on behalf of the Scottish and Offshore TOs is now netted off revenues (due to this being an "agent" relationship), effectively reducing Gross Revenue and Other costs.

Operating costs

Operating costs for the year ended 31 March 2019 of £2,355 million were £770 million lower than the prior year. The reduction in operating costs is driven by the changes caused by IFRS15, this resulted in the collection of revenue for the Scottish and Offshore TOs being net off and no longer included within other costs.

Net finance costs

For the year ended 31 March 2019, net finance costs before exceptional items and remeasurements decreased by £31 million to £157 million. Reflecting lower net debt and inflation element of RPI linked debt.

Exceptional finance costs increased by £11 million to £2 million loss for the year ended 31 March 2019.

Taxation

The tax charge on profits before exceptional items and remeasurements was £1 million higher than the prior year as a result of comparable profits excluding exceptional items.

Taxation after exceptional items was £46 million lower than the prior year as a result of the substantial additional costs associated with the impairments and restructuring programme processed in year.

Consolidated statement of financial position commentary

	Year ended 31 March	
	2019	2018
	£m	£m
Non-current assets	**13,506**	13,552
Current assets[1]	**1,054**	604
Total assets	**14,560**	14,156
Current liabilities[1]	**(3,068)**	(3,431)
Non-current liabilities	**(7,509)**	(7,251)
Total liabilities	**(10,577)**	(10,682)
Net assets	**3,983**	3,474

1 Includes assets or liabilities held for sale being transferred to ESO operations on 1 April 2019 (see note 9 for further details).

Property, plant and equipment

Property, plant and equipment increased by £144 million to £12,944 million as at 31 March 2019. This was principally due to capital expenditure of £853 million, offset by £435 million of depreciation in the year and £150 million disposal of assets associated with the terminated nuclear connection agreements. £95 million relates to transfer to held for sale for the disposal of ESO.

Trade and other receivables

Trade and other receivables have decreased by £198 million to £101 million at 31 March 2019. This is predominantly driven by a significant £110 million increase in prepayments and accrued income for the year. This was caused by a £69 million increase in BSUoS cost recoveries which have increased due to recovery of liquidated damages induced by the outage of the Western Link, the liquidated damages are however offset against an equal payable resulting in a net nil exposure overall. £33 million relates to the income expected from TNUoS demand customers. A significant reduction of £344m (£273 million from accrued income) relates to the transfer of balances to held for sale in respect of ESO.

Trade and other payables

Trade and other payables have decreased by £379 million to £585 million this is due to an increase of £150 million in trade payables offset by a reduction of £104 million in deferred income, social security and other taxes, amounts owed to subsidiaries of National Grid and other payables. Approximately £80 million of the increase relates to amounts due to constraint costs which increased due to the outage of the Western Link. A fault in the HVDC Western Link interconnector resulted in the ESO having to take large volumes of balancing mechanism actions to solve the flow restrictions, this lead to large increases in cost to buy off wind generation between 19 February and 22 March 2019. A reduction of £425 million relates to the transfer to liabilities held for sale for ESO.

Deferred tax liabilities

The net deferred tax liability increased by £4 million to £914 million. Restatements in relation to IFRS15 accounted for a £6 million increase in the opening deferred tax balance. The remaining difference consists of increase accelerated tax depreciation and increases in the pension assets.

Net debt

Net debt has reduced by £169 million as detailed on the following page.

Provisions

Total provisions increased by £26 million, driven by the restructuring provision charge of £71 million addition, offset by associated utilisation of £24 million. A further reduction of £18 million relates to the transfer to held for sale in respect of the ESO sale.

Other non-current liabilities

Other non-current liabilities decreased substantially by £410 million principally due to a significant reduction in deferred income for the year of £390 million. This was driven by the reclassification of capital contributions in aid of construction within the statement of financial position to contract liabilities following implementation of IFRS 15. The sale of ESO resulted in the transfer of £23 million to assets held for sale.

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 movement of £365 million as a reclassification.

Net pensions (obligations)/surplus

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

Net scheme (liability)/asset	£m
As at 1 April 2018	27
Current service cost	(24)
Past service costs:	
Augmentations	(4)
Redundancies	9
Plan amendments	(5)
Special termination benefit cost - redundancies	(35)
Net interest cost	2
Curtailments and settlements – other	-
Actuarial gains	
on plan assets	159
on plan liabilities	(121)
Change in longevity swap value	(35)
Employer contributions	101
As at 31 March 2019	74

The principal movements during the year include net actuarial gain of £3 million and employer contributions of £101 million. The overall movement in the deficit was a decrease of £47 million to show a closing pension asset of £74 million.

Special termination benefit costs have increased to £35 million (2017/18: Nil), this was driven by the completion of a major restructuring within National Grid Electricity Transmission.

Further information on our pensions benefit obligations can be found in note 21 of the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 28 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 26.

Cash flow statement commentary

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

Reconciliation of cash flow to net debt

	2019 £m	2018 £m
Cash generated from operations	**1,323**	1,683
Net capital expenditure	**(799)**	(968)
Business net cash flow	**524**	715
Net interest paid	**(120)**	(126)
Tax received / (paid)	**(109)**	(96)
Dividends paid	**-**	(700)
Net disposals of short term financial investments	**(43)**	127
Net proceeds/(repayments) from loans	**(308)**	229
Settlement of short term borrowings and derivatives	**62**	(155)
(Decrease)/Increase in cash and cash equivalents	**6**	(6)
(Decrease)/increase in financial investments	**43**	(127)
Increase)/decrease in borrowings and related derivatives	**246**	(78)
Net interest paid on the components of net debt	**120**	126
Changes in fair value of financial assets and liabilities and exchange movements	**(18)**	26
Net interest charge on the components of net debt	**(228)**	(265)
(Increase)/decrease in net debt	**169**	(324)
Opening net debt	**(7,550)**	(7,226)
Closing net debt	**(7,381)**	(7,550)

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

For the year ended 31 March 2019 cash flow from operations decreased by £335 million to £1,348 million. Adjusted operating profit before depreciation and amortisation was £246 million lower year on year, £237 million related to exceptional items included within total operating profit, additional details of these charges have been provided in Note 5 of the financial statements. Changes in working capital decreased by £300 million from the prior year to £(76) million, this was predominantly driven by the volume of the TNUoS accrual at the year end.

Net capital cash expenditure

Net capital investment decreased by £169 million to £799 million in the year to date 31 March 2019. This is mostly due to a reduction in spend on two major programmes that peaked in 17/18, the London power tunnels and the 400km Western Link.

Net interest paid

The net interest paid is £6 million lower 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 £869 million will be allocated for the 2018/19 dividend (2018: £700 million).

Other

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

Regulated financial performance

Timing and Regulated Revenue Adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are finalised. Our operating profit for the year includes a total estimated in-year under-recovery of £77 million (2017/18: £14 million under-recovery). Our closing balance at 31 March 2019 was £118 million under-recovery which will be recovered from customers in subsequent periods (2017/18: under-recovery of £44 million).

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

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

Return on Equity

Return on Equity for the year, normalised for a long-run RPI inflation rate of 3%, was 13.7% (2018: 13.1%) compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.2%. The principal components of the differences are shown in the table below:

Year ended 31 March	**2019 %**	2018 %
Base return (including avg. 3% long-run inflation)	**10.2**	10.2
Totex incentive mechanism	**2.3**	1.8
Other revenue incentives	**0.5**	0.4
Return including in year incentive performance	**13.0**	12.4
Pre-determined additional allowances	**0.7**	0.7
Return on Equity	**13.7**	13.1

RoE increased 60 bps year on year, driven by a continued focus on innovation and efficiency, as well as the additional cyber and physical security allowances from the reopener fillings in September. Other revenue incentives, at 50 basis points, was also higher than last year driven by performance improvements across customer, stakeholder, reliability and the System Operator. Additional allowances contributed 70 basis points of performance, in line with last year.

The improved totex performance in the year principally reflects efficiencies and innovative engineering within the capital investment programme in relation to both load and non-load related projects. We aim to deliver the outputs and essential maintenance required by the RIIO framework in a sustainable and efficient way to deliver best value for consumers and shareholders.

We continued to deliver good performance under the stakeholder engagements and customer satisfaction incentives and we continue to work to identify opportunities for future outperformance across these areas.

Regulated Financial Position up 3%

In the year, Regulated Asset Value (RAV) grew by 3.8% which is 0.7% lower than prior year driven by a lower RAV indexation rate. Net other regulatory liabilities decreased by £175 million, reflecting the impact of the repayment of excess allowances.

	2019	2018
Opening Regulated Asset Value (RAV)[1]	**13,045**	12,479
Asset additions (aka slow money) (actual)	**967**	918
Performance RAV or assets created	**90**	83
Inflation adjustment (actual RPI)	**321**	417
Depreciation and amortisation	**(886)**	(852)
Closing RAV[2]	**13,537**	13,045
Opening balance of other regulated liabilities[1]	**(410)**	(445)
Movement	**175**	51
Closing balance	**(235)**	(394)
Closing Regulated Financial Position	**13,302**	12,651

1 March 2018 opening balances adjusted to correspond with 2017/18 regulatory filings and calculations.

2 At the 31 March 2019 closing RAV, ESO accounted for £198 million of the combined figure presented above, this will be presented separately from 1 April 2019 post sale.

Held for sale – Electricity System Operator business

On 3 August, 2017, NGET's regulator Ofgem published a report on the future of the national electricity system operator (ESO) business. The report served to set a path of increased separation of the ESO role within the National Grid group, requiring that from 1 April 2019, it will be operated via a legally separate entity with its own board and licence, and therefore requiring its disposal by NGET.

The sale of the assets and liabilities pertaining to ESO to NGESO was completed immediately after the end of the financial year on 1 April 2019. Further details of the disposal are provided in Note 9 to the financial statements.

Corporate Governance

Corporate Governance Statement

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

Governance framework

The Board of the Company is collectively responsible for its governance, and oversees its effective oversight of the Company and its business and compliance with all relevant laws and regulations, including compliance with its obligations under its Electricity Transmission Licence. To facilitate this, a comprehensive governance framework has been established. This governance framework forms part of the wider National Grid plc governance framework and is aligned, as required and is applicable, to the Company. Risk management is fundamental to delivering the long-term success of the Company and for that reason a separate section of the 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 licence.

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

During the year, the Board consisted 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. On 31 March 2019, Fintan Slye resigned from the Board as part of the new arrangements for the Electricity System Operator, meaning the number of executive directors was reduced to five – further details can be found on page 36.

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 Electricity Transmission is well placed to identify and facilitate understanding of the views of its ultimate shareholder.

Sufficiently Independent Directors

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

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

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

For the reporting period, the executive director membership of the Board consisted of the senior managers of the electricity transmission and system operator businesses, regulatory function and finance 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 plc group. These presentations also provide an opportunity for the individual executive directors to benefit from the input of other Board members on matters within their area of the business.

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", see page 3.

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 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 outside of board meetings; and the Chair holds a short meeting with the SIDs, before each meeting to discuss the focus of the upcoming meeting. After each meeting the Chair 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. [Action plan details to be included.]

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
Fintan Slye	Director of UK System Operator	6 of 6
David Wright	Director Electricity Transmission	5 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 Chair.

Board remuneration

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

Committees

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

- Electricity Transmission Executive Committee
- System Operator Executive Committee (ceased to be a Committee of the Board on 31 March 2019)
- 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.

Electricity Transmission Executive Committee

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

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

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

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

System Operator Executive Committee
Until 31 March 2019, the System Operator Executive Committee (SOEC) acted 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 had a number of sub-committees dealing with matters such as SO specific investments, SO Risk and Compliance and SO Incentive Performance.

Following separation of the Electricity System Operator, SOEC ceased to be a committee of the Board as responsibility for the ESO business transferred to National Grid Electricity System Operator Limited – further details can be found in note 9 of the financial statements.

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

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. For the reporting period, the Committee was 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 Chair of the Committee and the Business Separation Compliance Officer/Compliance Officer. Following the meetings, the Chair provided updates to the Board on matters considered at the meetings.

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

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

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 whose role is to keep under review the Company's financial reporting and internal controls and their effectiveness, together with reviewing the Company's risk management processes. It also reviews the external audit plan and reviews the external auditors' findings.

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

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, NGET 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, compliance and judgements made in the preparation of the year-end financial statements, and separation of the Electricity System Operator.

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 Electricity Transmission 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 39.

Following consideration of the auditors' independence from NGET, 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.

Business separation

Business Separation Compliance Committee

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

Special Condition 2O (Business separation requirements and compliance obligations) of our electricity transmission licence requires the Company to maintain business separation sufficient to ensure that no commercial advantage is given to any of the National Grid competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. This Condition also requires NGET, in carrying out its licensed activities, to have in place and maintain systems of control and governance arrangements to ensure the Company complies with several licence conditions covering the prohibition of cross subsidies, Financial Ringfencing, prohibited activities and business conduct.

Our policy in respect of compliance with Special Condition 2O is set out in the Company's Compliance Statement. We have taken the following specific actions to comply with the requirements of special Condition 2O: We have taken the following specific actions to comply with the requirements of Special Condition 2B:

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

- Established and maintained a Code of Ethical Business Conduct to ensure employees are aware of their obligations to protect confidential information relating to the Company.

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company 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	
Fintan Slye	Resigned 31 March 2019
David Wright	

**Sufficiently Independent Director*

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 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, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 12 to 36 which is incorporated by reference into this report.

Material interests in shares

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

Dividends

A final dividend of £869 million was declared after the year end on 24 July 2019 (2017/18: £700 million interim dividend).

Share capital

Share capital remains unchanged. See note 23 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £11 million during the year (2017/18: £6 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 15 and 16 which is incorporated by reference into this report.

Audit information

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

Annual General Meeting

Notice of the Company's Annual General Meeting for 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 28 to the consolidated financial statements. There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability of National Grid Electricity Transmission plc has been assessed on page 23.

By order of the Board

Alan Foster
UK CFO
24 July 2019
National Grid Electricity Transmission plc
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2366977

Introduction to the financial statements

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

Notes

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

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the 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 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 National Grid 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 Auditors' report to the Members of National Grid Electricity Transmission plc

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of National Grid Electricity Transmission 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 Parent Company accounting policies;
- the Parent Company balance sheet;
- the Parent Company statement of changes in equity; and
- the related notes 1 to 19 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 £41.9 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 99% of the Group's revenue, profit before tax and 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 items as exceptional charges:

- costs of implementing the UK cost efficiency and restructuring programme (£100 million); and
- write off of nuclear connections development costs (£137 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 £3.1 billion (31 March 2018: £3.0 billion), and scheme assets of £3.2 billion (31 March 2018: £3.1 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 21 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 scheme 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 rate 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 £7.5 billion (31 March 2018: £7.7 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 £41.9 million for the current year. In 2018 the materiality was set at £43.1 million.	Materiality has been set at £41.5 million for the current year. In 2018 materiality was set at £43.0 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 7.0% 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 £29.4 million (2018: £30.0 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 £2.1 million (2018: £2.1 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 £41.9 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 this matter.

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).

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
Revenue	2 (a)		**3,353**		4,158
Operating costs	4		**(2,355)**		(3,125)
Operating profit					
Before exceptional items	2 (b)	**998**		1,033	
Exceptional items	5	**(237)**		-	
Total Operating Profit	2 (b)		**761**		1,033
Finance income	6		**7**		1
Finance costs					
Before exceptional items and remeasurements	6	**(164)**		(189)	
Remeasurements	5	**(2)**		9	
Total finance costs	6		**(166)**		(180)
Profit before tax					
Before exceptional items and remeasurements		**841**		845	
Exceptional items and remeasurements	5	**(239)**		9	
Total profit before tax			**602**		854
Tax					
Before exceptional items and remeasurements	7	**(164)**		(163)	
Exceptional items and remeasurements	5	**45**		(2)	
Total tax	7		**(119)**		(165)
Profit after tax					
Before exceptional items and remeasurements		**677**		682	
Exceptional items and remeasurements	5	**(194)**		7	
Profit for the year attributable to owners of the parent			**483**		689

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2019 £m	2018 £m
Profit for the year		**483**	689
Other comprehensive income/(loss):			
Items that will never be reclassified to profit or loss			
Remeasurements of net retirement benefit obligations	21	**3**	494
Net losses in respect of cash flow hedging of capital expenditure	24	**(4)**	-
Tax on items that will never be reclassified to profit or loss	7, 24	**-**	(84)
Total items that will never be reclassified to profit or loss		**(1)**	410
Items that may be reclassified subsequently to profit or loss			
Net (losses)/gains in respect of cash flow hedges and cost of hedging	24	**(10)**	7
Transferred to profit or loss in respect of cash flow hedges and cost of hedging		**-**	3
Tax on items that may be reclassified subsequently to profit or loss	7, 24	**2**	(2)
Total items that may be reclassified subsequently to profit or loss		**(8)**	8
Other comprehensive (loss)/income for the year, net of tax		**(9)**	418
Total comprehensive income for the year attributable to owners of the parent		**474**	1,107

Consolidated statement of changes in equity

	Note	Called up share capital £m	Retained earnings £m	Other equity reserves[1] £m	Total equity £m
At 1 April 2017		44	3,021	(4)	3,061
Profit for the year		-	689	-	689
Total other comprehensive income for the year		-	410	8	418
Total comprehensive income for the year		-	1,099	8	1,107
Equity dividends	8	-	(700)	-	(700)
Share-based payments		-	5	-	5
Tax on share based payments		-	1	-	1
At 31 March 2018 (as previously reported)		44	3,426	4	3,474
Impact of transition to IFRS9 and IFRS15[2]		-	32	-	32
At 31 March 2018 (as restated)		44	3,458	4	3,506
Profit for the year		-	483	-	483
Total other comprehensive income for the year		-	3	(12)	(9)
Total comprehensive income for the year		-	486	(12)	474
Equity dividends	8	-	-	-	-
Share-based payments		-	3	-	3
Tax on share based payments		-	-	-	-
At 31 March 2019		**44**	**3,947**	**(8)**	**3,983**

1 Analysis of other equity reserves is provided within note 24.

2 Analysis of the impact of transition to IFRS9 and IFRS15 is provided within note 33.

Consolidated statement of financial position

as at 31 March

	Notes	2019 £m	2018 £m
Non-current assets			
Intangible assets	10	**107**	273
Property, plant and equipment	11	**12,944**	12,800
Prepayments	15	**11**	11
Pension Asset	21	**123**	73
Derivative financial assets	13	**321**	395
Total non-current assets		**13,506**	13,552
Current assets			
Inventories	14	**43**	42
Trade and other receivables	15	**101**	299
Financial and other investments	12	**267**	224
Derivative financial assets	13	**-**	25
Current tax asset	7	**-**	3
Cash and cash equivalents	16	**4**	11
Assets held for sale	9	**639**	-
Total current assets		**1,054**	604
Total assets		**14,560**	14,156
Current liabilities			
Borrowings	17	**(1,830)**	(2,327)
Derivative financial liabilities	13	**(112)**	(132)
Trade and other payables	18	**(585)**	(964)
Contract Liabilities	19	**(10)**	-
Provisions	22	**(36)**	(8)
Liabilities held for sale	9	**(495)**	-
Total current liabilities		**(3,068)**	(3,431)
Non-current liabilities			
Borrowings	17	**(5,674)**	(5,357)
Derivative financial liabilities	13	**(370)**	(389)
Other non-current liabilities	20	**(86)**	(496)
Deferred tax liabilities	7	**(914)**	(910)
Pensions benefit obligations	21	**(49)**	(46)
Provisions	22	**(51)**	(53)
Contract Liabilities	19	**(365)**	-
Total non-current liabilities		**(7,509)**	(7,251)
Total liabilities		**(10,577)**	(10,682)
Net assets		**3,983**	3,474
Equity			
Share capital	23	**44**	44
Retained earnings		**3,947**	3,426
Other reserves	24	**(8)**	4
Total equity		**3,983**	3,474

The consolidated financial statements set out on pages 49 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 Electricity Transmission plc
Registered number: 2366977

Consolidated cash flow statement

for the years ended 31 March

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Operating profit	2 (b)	**761**	1,033
Adjustments for:			
Exceptional items	5	**237**	-
Cash flow from exceptional items		**(34)**	-
Depreciation, amortisation & impairment		**492**	464
Share-based payment charge		**3**	5
Changes in working capital		**(101)**	224
Changes in pension obligations		**(46)**	(49)
Changes in provisions		**(5)**	(15)
Loss on disposal of property, plant and equipment		**18**	7
(Gain)/Loss on disposal of intangible assets		**(2)**	14
Cash flows generated from operations		**1,323**	1,683
Tax paid		**(109)**	(96)
Net cash inflow from operating activities		**1,214**	1,587
Cash flows from investing activities			
Purchases of intangible assets		**(72)**	(56)
Purchases of property, plant and equipment		**(735)**	(918)
Disposals of property, plant and equipment		**8**	6
Net disposals of short-term financial investments		**(43)**	127
Net cash flow used in investing activities		**(842)**	(841)
Cash flows from financing activities			
Proceeds from loans received		**499**	812
Repayment of loans		**(807)**	(583)
Settlement of short-term borrowings and derivatives		**62**	(155)
Interest paid		**(120)**	(126)
Dividends paid to shareholders	8	**-**	(700)
Net cash flow used in financing activities		**(366)**	(752)
Net increase/(decrease) in cash and cash equivalents	25 (a)	**6**	(6)
Cash and cash equivalents at the start of the year		**11**	17
Net cash and cash equivalents at the end of the year	16	**17**	11

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. The accounting policies applicable across the financial statements are shown below, whereas 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 have summarised new International Accounting Standards Board (IASB) and EU endorsed accounting standards, amendments and interpretations and whether these are effective for this year end or in later years, explaining how significant changes are expected to affect our reported results.

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

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 IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 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, the revaluation of derivative financial instruments and certain commodity contracts and certain financial assets and liabilities measured at fair value.

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

The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. We continue to use a columnar presentation as we consider it improves the clarity of the presentation, and is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee, and assists users of the financial statements to understand the results. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group's financial performance. Presenting financial results before exceptional items and remeasurements is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee and aids the comparability of reported financial performance from year to year in this context. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors and accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and period on period.

a) Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning and treasury management activities. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

b) Basis of consolidation

The consolidated financial statements incorporate the 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 - note 24.

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

d) Areas of judgement and key sources of estimation uncertainty

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 21.
- revenue recognition and assessment of unbilled revenue – note 3.
- environmental and other provisions – note 22.
- 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 29.

e) Accounting policy choices

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.

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

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Held for sale assets and liabilities: In preparing the financial statements, we have exercised our judgment in concluding that it is appropriate to classify the assets and liabilities of our electricity system operator business as held for sale, as detailed in Note 9.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted.

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’.

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.

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

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 £23 million (see note 26), 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 and lease liabilities (which are included within net debt) of approximately c £45 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 less than c £10 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 and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of each operating segment and determining resource allocation between them. The Board of Directors is National Grid Electricity Transmission plc's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4). The following table describes the main activities for the operating segment:

Electricity Transmission	High voltage electricity transmission networks in Great Britain.

Other activities not included within the above segment relate to other commercial operations and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2019.

On 1 April 2019, the Electricity System Operator (ESO) business was sold to NGESO Ltd, a separate independent subsidiary within the National Grid Group of companies. The Directors do not consider this business met the definition of a discontinued operation due to its relative level of operating profit, property, plant & equipment, and share of net debt when compared to the Electricity Transmission Owner operation. However, additional disclosures are included in the footnotes below.

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

(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:						
Electricity Transmission[1]	**3,351**	**-**	**3,351**	4,154	-	4,154
Other activities	**4**	**(2)**	**2**	4	-	4
Total revenue from continuing operations	**3,355**	**(2)**	**3,353**	4,158	-	4,158

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

	2019 £m	2018 £m
Customer A	**379**	505
Customer B	**355**	500
Customer C	**-**	497

1 Included within Electricity Transmission is £ 1,406 million (2018: £1,181 million) of revenues relating to the ESO operation.

2 Sales exclude £13 million that have been included in exceptional items relating to nuclear connections (see note 5).

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

2. Segmental analysis (continued)

(b) Operating profit

A reconciliation of the operating segment's measure of profit to 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:				
Electricity Transmission[1]	**1,015**	1,053	**778**	1,053
Other activities	**(17)**	(20)	**(17)**	(20)
Total operating profit from continuing operations	**998**	1,033	**761**	1,033
Reconciliation to profit before tax:				
Operating profit	**998**	1,033	**761**	1,033
Finance income	**7**	1	**7**	1
Finance costs	**(164)**	(189)	**(166)**	(180)
Profit before tax from continuing operations	**841**	845	**602**	854

1 Included within Electricity Transmission is £32 million (2018: £5 million) of operating profit before exceptional items & remeasurements and £2 million (2018: £5 million) operating profit after exceptional items & remeasurements relating to the ESO operation.

(c) Capital expenditure and depreciation

	Net book value of property, plant and equipment and intangible assets		Capital expenditure [2]		Depreciation, amortisation and impairment [2]	
	2019[3] £m	2018[1] £m	**2019[3] £m**	2018[1] £m	**2019[3] £m**	2018[1] £m
Operating segment:						
Electricity Transmission	**13,030**	13,052	**925**	1,000	**492**	464
Other activities	**21**	21	**-**	-	**-**	-
Total from continuing operations	**13,051**	13,073	**925**	1,000	**492**	464
By asset type						
Property, plant and equipment	**12,944**	12,800	**853**	944	**435**	413
Intangible assets	**107**	273	**72**	56	**57**	51
Total from continuing operations	**13,051**	13,073	**925**	1,000	**492**	464

1 Included within Electricity Transmission 2018 comparatives are £63 million of capital expenditure and £31 million of depreciation, amortisation & impairment relating to the ESO operations.
2 Represents additions to property, plant and equipment and non-current intangibles.
3 2019 Electricity Transmission numbers reported in the table above do not include assets transferred to ESO operations on 1 April 2019.

3. Revenue

Revenue arises in the course of the ordinary activities and principally comprises transmission services.

Transmission services 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 valued added tax. The Group recognises revenue when it transfers control over a product or service to a customer. It excludes value added (sales) tax & intragroup sales.

IFRS 15 was effective from 1 April 2018. As explained further 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 reserves is disclosed in note 33, with the main change to operating profit being in relation to customer connection income. Note 33 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 within the ESO operation (and has no impact on profit), for a full list of changes IFRS15 changes, please refer to note 33.

The UK Electricity Transmission segment principally generates revenue by providing electricity transmission services (both as transmission owner in England and Wales and system operator in Great Britain). Our business operates as a monopoly regulated by Ofgem, which has established price control mechanisms that set the amount of 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 business earns revenue for the transmission services it has provided during the year. The revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

The IFRS revenues we record 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. Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end, but not invoiced at year end. This is estimated based on historical consumption and weather patterns. Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement, adjustments will be made to 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 high-voltage electricity encompasses the following principal services:

– the supply of high-voltage electricity (including both transmission and system operator charges); and
– construction work (principally for connections).

For the supply of high-voltage electricity, revenue is recognised based on capacity and volumes. Our performance obligation is satisfied over time as our customers make use of our network. We bill monthly in arrears and our payment terms are up to 14 days.

For construction work relating to connections, customers can either pay over the useful life of the connection or upfront. Revenue is recognised over time, as we provide access to our network, and where the customer pays upfront, revenues are deferred and released over the life of the connection.

For other construction where there is no consideration for any future services, for example diversions (being the re-routing of network assets at our customers' request), revenues are recognised as the construction work is completed.

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

Revenue for the year ended 31 March 2019	UK Electricity Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Electricity Transmission	3,345	-	3,345
Other revenue:			
Other	6	2	8
Total revenue from continuing operations	3,351	2	3,353

Revenue to be recognised in future periods, presented as contract liabilities of £375 million (see note 19), relates to contributions in aid of construction. Revenue is recognised over the life of the asset, which for Electricity Transmission is 40 years.

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

4. Operating costs

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		After exceptional items and remeasurements	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Depreciation, amortisation and impairment	**493**	464	**150**	-	**643**	464
Payroll costs	**182**	181	**80**	-	**262**	181
Rates and property taxes	**121**	117	**-**	-	**121**	117
Balancing Service Incentive Scheme	**1,196**	1,011	**-**	-	**1,196**	1,011
Payments to other UK network owners[1]	**-**	1,032	**-**	-	**-**	1,032
Research and Development expenditure	**11**	6	**-**	-	**11**	6
Operating leases	**14**	15	**-**	-	**14**	15
Inventory consumed	**13**	14	**-**	-	**13**	14
Other	**325**	285	**20**	-	**345**	285
	2,355	3,125	**250**	-	**2,605**	**3,125**

1 Under IFRS 15, for 2019 revenue and associated payments to other UK network owners are presented on a net basis. Had we not adopted IFRS 15, our revenues and operating costs for the year ended 31 March 2019 would have been £1,166 million higher, with no impact to operating profits (see note 33).

(a) Payroll costs

	2019 £m	2018 £m
Wages and salaries	**196**	190
Social security costs	**26**	26
Defined contribution scheme costs	**19**	15
Defined benefit pension costs	**51**	31
Charges to other group defined benefit schemes	**3**	-
Share-based payments	**3**	5
Severance costs (excluding pension costs)	**53**	(1)
	351	266
Less: payroll costs capitalised	**(89)**	(85)
Total payroll costs	**262**	181

(b) Number of employees, including Directors

	31 March 2019 Number	**Monthly average 2019 Number**	31 March 2018 Number	Monthly average 2018 Number
Electricity Transmission	**3,380**	**3,487**	3,679	3,703

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

(c) Key management compensation

	2019 £m	2018 £m
Salaries and short-term employee benefits	**1**	3
Post-retirement benefits	**-**	-
Share-based payments	**1**	1
Termination benefits (note 2(d))	**-**	-
	2	4

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

4. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the Company in respect of qualifying services for 2019 was £1,461,963 (2018: £1,484,977).

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 two Directors (2018: four Directors), under a defined benefit scheme.

The aggregate emoluments for the highest paid Director were £479,326 for 2019 (2018: £512,695); 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	2018
	£m	£m
Audit services		
Audit of the parent Company’s individual and consolidated financial statements	**0.4**	0.3
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services	**0.4**	0.5
Other non-audit fees	**-**	0.1

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

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'. Business performance, (which excludes exceptional items and remeasurements as defined below) is used by management to monitor financial performance as it is considered that it aids the comparability of our reported financial performance from year to year. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Exceptional items and remeasurements from continuing operations

	2019	2018
	£m	£m
Included within operating profit:		
Exceptional items:		
Cost efficiency and restructuring programmes	**100**	-
Write off of nuclear connection development costs	**150**	-
Exceptional income relating to nuclear connections	**(13)**	-
	237	-
Included within finance income and costs:		
Remeasurements:		
Net losses/(gains) on derivative financial instruments	**2**	(9)
	2	(9)
Total included within profit before tax	**239**	(9)
Included within tax		
Tax credit on exceptional items	**(45)**	-
Tax charge on remeasurements	**-**	2
	(45)	2
Total exceptional items and remeasurements after tax	**194**	(7)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**192**	-
Total remeasurements after tax	**2**	(7)
Total exceptional items and remeasurements after tax	**194**	(7)

Exceptional items

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

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

Cost efficiency and restructuring programmes: Our UK Electricity 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 £100 million in severance and associated planning and support costs. A net charge of £37 million relating to pension costs is recognised within this amount. The cash outflow for the year was £48 million.

Disposal of nuclear connection development costs: In November 2018 Toshiba announced the cancellation of its NuGen project to build a new nuclear power station at Moorside in Cumbria, and on 23 November NuGen terminated its connection agreement. On 15 February 2019, Hitachi terminated its connection agreements in respect of its Horizon projects at Wylfa and Oldbury. As there is no realistic prospect of these schemes continuing in their present form, we have concluded that it is appropriate to write off the assets we had been developing for over ten years with a value of £150m. After deducting cash inflows relating to termination fees received of £13 million, the net disposal charge was £137 million.

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.

These fair values increase or decrease because of changes in foreign exchange or other financial indices over which we have no control.

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 28).

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 (fair value through profit and loss) FVTPL. The interest income, dividends and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2019 £m	2018 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**5**	1
Net interest on pension asset	**2**	-
Other income	**-**	-
	7	1
Finance costs		
Net interest on pensions and other post-retirement benefit obligations	**-**	(11)
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(45)**	(54)
Other borrowings	**(204)**	(230)
Interest expense on financial liabilities held at fair value through profit and loss	**-**	-
Derivatives	**15**	18
Unwinding of discount on provisions	**(1)**	(2)
Other interest	**(1)**	-
Less: interest capitalised [1]	**72**	90
	(164)	(189)
Remeasurements - Finance costs		
Net gains/(losses) on derivative financial instruments [2]:		
Derivatives designated as hedges	**4**	10
Derivatives not designated as hedges or ineligible for hedge accounting	**(6)**	(1)
	(2)	9
Total remeasurements - Finance income and costs	**(159)**	(179)
Finance income	**7**	1
Finance costs	**(166)**	(180)
Net finance costs from continuing operations	**(159)**	(179)

1. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.9% (2018: 4.2%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £14 million (2018: £17 million).

2. Includes a net foreign exchange loss on financing activities of £3 million (2018: £30 million gain) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Tax

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

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

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

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

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

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

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

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

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

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

Tax charged to the income statement

	2019 £m	2018 £m
Tax before exceptional items and remeasurements	**164**	163
Tax on total exceptional items and remeasurements (note 5)	**(45)**	2
Total tax charge	**119**	165

Tax as a percentage of profit before tax

	2019 %	2018 %
Before exceptional items and remeasurements	**19.5**	19.3
After exceptional items and remeasurements	**19.8**	19.3

7. Tax (continued)

The tax charge for the year can be analysed as follows:	**2019 £m**	2018 £m
Current tax		
Corporation tax at 19% (2018: 19%)	**110**	118
Corporation tax adjustment in respect of prior years	**(2)**	2
Total current tax	**108**	120
Deferred tax		
Deferred tax	**8**	45
Deferred tax adjustment in respect of prior years	**3**	-
Total deferred tax	**11**	45
Total tax charge	**119**	165

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

	2019 £m	2018 £m
Current tax		
Share-based payments	**-**	(1)
Deferred tax		
Cash flow hedges	**(2)**	2
Share-based payments	**-**	2
Remeasurements of net retirement benefit obligations	-	84
	(2)	87
Analysed as:		
Total tax recognised in the statement of other comprehensive income	**(2)**	86
Total tax relating to share-based payments recognised directly in equity	**-**	1
	(2)	87

The tax charge for the year after exceptional items and remeasurements is higher than (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	**841**	**841**	845	845
Exceptional items and remeasurements (note 5)	**-**	**(239)**	-	9
Profit before tax after exceptional items and remeasurements	**841**	**602**	845	854
Profit before tax multiplied by UK corporation tax rate of 19% (2018: 19%)	**159**	**113**	160	162
Effect of:				
Adjustments in respect of prior years	**1**	**1**	2	2
Expenses not deductible for tax purposes	**7**	**8**	8	8
Non taxable income	**(1)**	**(1)**	(2)	(2)
Impact of share-based payments	**(1)**	**(1)**	-	-
Deferred tax impact of change in UK tax rate	**(1)**	**(1)**	(5)	(5)
Total tax charge	**164**	**119**	163	165
	%	**%**	%	%
Effective tax rate	**19.5%**	**19.8%**	19.3	19.3

Factors that may affect future tax charges

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

7. Tax (continued)

Tax included within the statement of financial position

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

Deferred tax liabilities/(assets)

	Accelerated tax depreciation £m	Share-based payments £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 1 April 2017	-	(5)	(86)	(1)	(2)	(94)
Deferred tax liabilities at 1 April 2017	871	-	-	-	1	872
At 1 April 2017	871	(5)	(86)	(1)	(1)	778
(Credited)/charged to income statement	37	1	6	-	-	44
(Credited)/charged to other comprehensive income	-	2	84	2	-	88
At 31 March 2018 (as previously reported)	908	(2)	4	1	(1)	910
Impact of transition to IFRS15	6	-	-	-	-	6
At 31 March 2018 (as restated)	914	(2)	4	1	(1)	916
Deferred tax assets at 31 March 2018	-	(2)	-	-	(1)	(3)
Deferred tax liabilities at 31 March 2018	914	-	4	1	-	919
At 1 April 2018	914	(2)	4	1	(1)	916
Charged to income statement	13	(1)	8	-	(9)	11
Charged to other comprehensive income	-	-	-	(2)	-	(2)
Transfer to held for sale[1]	(14)	-	-	-	3	(11)
At 31 March 2019	**913**	**(3)**	**12**	**(1)**	**(7)**	**914**
Deferred tax assets at 31 March 2019	-	(3)	-	(1)	(7)	(11)
Deferred tax liabilities at 31 March 2019	913	-	12	-	-	925
At 31 March 2019	**913**	**(3)**	**12**	**(1)**	**(7)**	**914**

1 Transfer to held for sale represents deferred tax liabilities being transferred to ESO operations on 1 April 2019 (note 9).

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £914 million (2018: £916 million (as restated)).

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.

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

	2019 pence (per ordinary share)	**£m**	2018 pence (per ordinary share)	£m
Ordinary dividends				
Interim dividend paid in the year	**-**	**-**	160.18	700

The Directors are proposing a final dividend for the year ended 31 March 2019 of 198.9p per share that will absorb approximately £869 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. Held for sale – Electricity System Operator business

On 3 August, 2017, NGET's regulator Ofgem published a report on the future of the national electricity system operator (ESO) business. The report served to set a path of increased separation of the ESO role within the National Grid group, requiring that from 1 April 2019, it will be operated via a legally separate entity with its own board and licence, and therefore requiring its disposal by NGET. The National Grid group has incorporated a company, National Grid Electricity System Operator, Ltd. ('NGESO') for the purpose of running the ESO.

The sale of the assets and liabilities pertaining to the ESO business to NGESO was completed immediately after the end of the financial year, on 1 April 2019, regulatory approvals having been received. The agreed arm's length enterprise valuation of the ESO business was £450 million on a normal working capital basis. As a result of required working capital adjustments to that valuation, the net consideration received from NGESO for the assets and liabilities of the ESO business was £287 million.

Assets and liabilities held for sale

Under IFRS, the reclassification of assets (and any associated liabilities) as 'held for sale' can only be triggered once the assets are available for sale in their present condition and the sale is 'highly probable'. The highly probable criteria is met when the sale is expected to be completed within a year. We have therefore classified our assets and liabilities pertaining to our ESO business as 'held for sale' with effect from 31 March 2019, as we have sold them to NGESO on 1 April 2019. At 31 March 2018, we had no such expectation of sale completion within a year. The sale was dependent upon a new licence being in place for the separate ESO business and this only came into effect on 1 April 2019.

The net carrying value of the assets and liabilities sold to NGESO was £145 million at 31 March 2019. No discounting was applied on the basis that the period to exercise was less than a year. The value allocated to each element of the disposal group at 31 March 2019 is as follows:

- Intangible Computer Software is held at £187 million (note 10);
- Property, Plant and Equipment is held at £95 million (note 11);
- Cash and cash equivalent is held at £13 million (note 16);
- Trade and Other Receivables (net of loan loss provision) are held at £344 million;
- Trade and Other Payables are held at £443 million;
- Provisions are held at £18 million (note 22);
- Deferred tax liabilities are held at £11 million (note 7);
- Other Non-current liabilities are held at £23 million (note 20).

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	467
Additions	56
Disposals	(16)
Reclassifications[1]	3
Transfers[2]	10
Cost at 31 March 2018	520
Additions	72
Disposals	(3)
Reclassifications[1]	4
Transfer to held for sale[3]	(333)
Cost at 31 March 2019	260
Accumulated amortisation at 1 April 2017	(198)
Amortisation charge for the year	(51)
Disposals	2
Accumulated amortisation at 31 March 2018	(247)
Amortisation charge for the year	(57)
Disposals	5
Transfer to held for sale[3]	146
Accumulated amortisation at 31 March 2019	(153)
Net book value at 31 March 2019	**107**
Net book value at 31 March 2018	273

1 Reclassification represents amounts transferred from property, plant and equipment (see note 11).
2 Transfers represents assets transferred from other group undertaking in the year.
3 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019 (note 9).

11. Property, plant and equipment

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

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

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

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

Property, plant and equipment includes assets in which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and Leasehold buildings	5 to 50
Plant and Machinery	
- Electricity Transmission plant	15 to 100
Motor vehicles and office equipment	Up to 7

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

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

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

Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year.

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

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	761	13,564	2,787	106	17,218
Additions	20	145	769	10	944
Disposals[1]	(1)	(272)	(12)	-	(285)
Reclassifications[2]	90	684	(780)	3	(3)
Transfers[3]	4	-	-	1	5
Cost at 31 March 2018	874	14,121	2,764	120	17,879
Additions	22	190	641	-	853
Disposals[1]	(1)	(92)	(173)	(11)	(277)
Reclassifications[2]	124	946	(1,079)	5	(4)
Transfer to held for sale[4]	(76)	(1)	(55)	(50)	(182)
Cost at 31 March 2019	943	15,164	2,098	64	18,269
Accumulated depreciation at 1 April 2017	(113)	(4,741)	-	(84)	(4,938)
Depreciation charge for the year	(12)	(393)	-	(8)	(413)
Disposals[1]	-	272	-	-	272
Reclassifications[2]	(2)	2	-	-	-
Accumulated depreciation at 31 March 2018	(127)	(4,860)	-	(92)	(5,079)
Depreciation charge for the year	(15)	(412)	-	(8)	(435)
Disposals[1]	-	92	-	10	102
Reclassifications[2]	-	-	-	-	-
Transfer to held for sale[4]	47	-	-	40	87
Accumulated depreciation at 31 March 2019	(95)	(5,180)	-	(50)	(5,325)
Net book value at 31 March 2019	**848**	**9,984**	**2,098**	**14**	**12,944**
Net book value at 31 March 2018	747	9,261	2,764	28	12,800

1 Disposals include £102m of nil net book value assets written off and UK nuclear connections development costs of £150 million (before £13 million of termination income) which were written off (2018: £nil). See note 5 for further details.

2 Reclassifications represents transfers between asset categories and to intangible assets (see note 9). The current year includes £87m of easements reclassified into land and buildings from assets under construction.

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

4 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019 (note 9).

	2019 £m	2018 £m
Information in relation to property, plant and equipment:		
Capitalised interest included within cost	**1,451**	1,401
Contributions to cost of property, plant and equipment included within:		
Contract liabilities - current (2018: Trade and other payables)	**10**	46
Contract liabilities - non-current (2018: Non-current liabilities)	**365**	387

12. Financial and other investments

The financial and other Investments balance of £267 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, the classification for each investment is dependent on its contractual cash flows and the business model it is held under and recognised on trade date.

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 £224 million reported across two categories: (i) long-term loans to our fellow group undertakings and (ii) other loans and receivables which includes bank deposits, collateral pledged against derivative holdings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date.

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		
Loans and receivables	**267**	224
	267	**224**
Financial and other investments including the following:		
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Restricted balances:		
Collateral [1]	**266**	223
	267	**224**

1 Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

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 28 (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.

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 NGET by their respective board of directors, derivatives are transacted by NGET 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 note 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 28.

(a) Financing Derivatives

	2019			2018		
	Asset £m	**Liabilities £m**	**Total £m**	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**254**	**(289)**	**(35)**	366	(314)	52
Cross-currency interest rate swaps	**66**	**(48)**	**18**	53	(47)	6
Foreign exchange forward contracts[1]	**1**	**(8)**	**(7)**	1	(2)	(1)
Inflation linked swaps	**-**	**(137)**	**(137)**	-	(158)	(158)
	321	**(482)**	**(161)**	420	(521)	(101)

1 Included within the foreign exchange forward contracts balance is £6 million (2018: £1 million) of derivatives in relation to capital expenditure.

13. Derivative financial instruments (continued)

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	**-**	**(112)**	**(112)**	25	(132)	(107)
	-	**(112)**	**(112)**	25	(132)	(107)
Non-current						
In 1 - 2 years	**-**	**(3)**	**(3)**	-	(31)	(31)
In 2 - 3 years	**-**	**-**	**-**	-	-	-
In 3 - 4 years	**-**	**-**	**-**	-	-	-
In 4 - 5 years	**20**	**-**	**20**	-	-	-
More than 5 years	**301**	**(367)**	**(66)**	395	(358)	37
	321	**(370)**	**(49)**	395	(389)	6
	321	**(482)**	**(161)**	420	(521)	(101)

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

	2019 £m	2018 £m
Interest rate swaps	**(2,844)**	(3,416)
Cross-currency interest rate swaps	**(809)**	(620)
Foreign exchange forward contracts	**(319)**	(223)
Inflation linked swaps	**(300)**	(494)
	(4,272)	(4,753)

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

14. Inventories

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 (spares & 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.

	2019 £m	2018 £m
Raw materials, spares and consumables	**43**	42

The above table includes a £12 million provision for obsolescence against raw materials and consumables at 31 March 2019 (2018: £12 million).

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.

Trade receivables are non-interest-bearing and generally have a 30 to 90 days term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. All other receivables are recorded at amortised cost. The provision as at 31 March 2019 was £36m (2018: £4m).

	2019 £m	2018 £m
Current		
Trade receivables	**15**	45
Amounts owed by fellow subsidiary undertakings	**18**	10
Prepayments and accrued income	**46**	209
Other receivables	**22**	35
	101	299

	2019 £m	2018 £m
Non-current		
Prepayments	**11**	11
	11	11

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	**4**	3
Charge for the year, net of recoveries	**32**	1
Transfer to held for sale[1]	**(34)**	-
As at 31 March	**2**	4

1 Transfer to held for sale represents loan loss provision transferred to ESO operations on 1 April 2019 (note 9).

Trade receivables past due but not impaired

	2019 £m	2018 £m
Up to 3 months past due	**29**	8
3 to 6 months past due	**21**	1
Over 6 months past due	**9**	2
	59	11

For further information on our wholesales and retail credit risk, refer to note 28(a).

16. 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 28(c).

	2019 £m	2018 £m
Cash at bank and short-term deposits	**17**	11
Cash and cash equivalents excluding bank overdrafts	**17**	11
Analysed as:		
Cash and cash equivalent for transmission operations	**4**	11
Cash and cash equivalent reclassified to held for sale at 31 March 2019 (note 9)	**13**	-
	17	11

17. Borrowings

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

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

National Grid Electricity Transmission plc 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.

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.

Further information on how we manage the rates and currency risk of our borrowings portfolio is presented in note 28. Information on our net debt is presented in note 25.

2018

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

	2019 **£m**	2018 £m
Current		
Bank loans	**102**	151
Bonds	**265**	595
Commercial paper	**73**	-
Borrowings from fellow subsidiaries of National Grid plc	**1**	1
Borrowings from the ultimate parent company	**1,389**	1,580
	1,830	2,327
Non-current		
Bank loans	**1,700**	1,731
Bonds [1]	**3,616**	3,276
Borrowings from the ultimate parent company	**358**	350
	5,674	5,357
Total borrowings	**7,504**	7,684

Total borrowings are repayable as follows:	**2019** **£m**	2018 £m
Less than 1 year	**1,830**	2,327
In 1 - 2 years	**447**	221
In 2 - 3 years	**358**	434
In 3 - 4 years	**116**	350
In 4 - 5 years	**167**	113
More than 5 years:		
by instalments	**865**	901
other than by instalments	**3,721**	3,338
	7,504	7,684

The fair value of borrowings at 31 March 2019 was £8,880 million (2018: £9,007 million). Where market values were available, fair value of borrowings (Level 1) was £1,593 million (2018: £1,264 million). Where market values are not available, fair value of borrowings (Level 2) was £7,287 million (2018: £7,743 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2019 was £7,369 million (2018: £7,559 million).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £36m (2018: £96m) in respect of cash received under collateral agreements.

At 31 March 2019, we had committed credit facilities of £1,645m (2018: £1,515m) of which £1,645m was undrawn (2018: £1,515m undrawn). All of the unused facilities at 31 March 2019 and at 31 March 2018 are available for liquidity purposes.

Of the £1,645m of undrawn committed borrowings facilities £65m was renegotiated before 31 March 2019, with the expiry extended by a further year, with effect from 1 June 2019.

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

18. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred amounts, some of 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 £m	2018 £m
Trade payables	**436**	484
Amounts owed to fellow subsidiaries of National Grid plc	**72**	83
Deferred income	**17**	284
Social security and other taxes	**44**	86
Other payables	**16**	27
	585	964

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

19. 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. Prior year equivalent balances were presented within Other non-current liabilities and Trade and other payables.

	2019 £m	2018 £m
Current	**10**	-
Non-current	**365**	-
	375	-

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

	2019 £m
As at 1 April 2018 (see note 33)	**362**
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(9)**
Increase due to cash received, excluding amounts recognised as revenue during the period	**22**
At 31 March 2019	**375**

20. 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.

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost. There is no material difference between the fair value and the carrying value of other payables.

	2019 £m	2018 £m
Deferred income[1]	**-**	413
Other payables	**86**	83
	86	496

1 Transfer to held for sale represents liabilities being transferred to ESO operations on 1 April 2019 (note 9).

21. Pensions and other post-retirement benefits

The majority of employees are either members of a DB (defined benefit) or a DC (defined contribution) pension scheme. 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 Electricity 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.

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 £5 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 Electricity will continue to work closely with the Trustees of NGEG of ESPS, 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.

21. Pensions and other post-retirement benefits (continued)

Pension plans:

Defined contribution

The National Grid YouPlan

National Grid Electricity pays contributions into YouPlan to provide DC benefits on behalf of employees. National Grid Electricity 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

National Grid Electricity Transmission's DB pension arrangements are held in a separate trustee administered fund. The arrangements are managed by 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. Actuarial valuations for all the schemes are currently being performed as at 31 March 2019.

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

The last full actuarial valuation for the NGEG of the ESPS determined that the scheme was in deficit. The Company and the Trustees agreed on a schedule of contributions, whereby deficit funding of £48 million is payable each year from 2016 to 2027, which should lead to the elimination of the funding shortfall by March 2027. All deficit funding amounts due will be adjusted for changes in the RPI. In addition, the employer contributes 40.7% of pensionable salary, less member contributions, in respect of the ongoing service cost. The scheme closed to new hires from 1 April 2006.

The scheme holds a longevity insurance contract which covers improvements in longevity, providing long-term protection to the scheme, should members live longer than currently expected.

Security arrangements

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

Value of security arrangements at 31 March 2019	£250 million
Principal supporting employer	National Grid Electricity Transmission plc (NGET)
Additional amounts payable [1]	A maximum of £500 million

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

21. Pensions and other post-retirement benefits (continued)

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	**23.1**	23.4
Females	**24.4**	24.7
In 20 years:		
Males	**24.3**	24.7
Females	**26.1**	26.4

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 11% active members (2018: 13%); 17% deferred members (2018: 18%) and 72% pensioner members (2018: 69%).

For sensitivity analysis see note 29.

Amounts recognised in the statement of financial position

	2019 £m	2018 £m
Present value of funded obligations	**(3,066)**	(2,979)
Fair value of scheme assets	**3,189**	3,052
	123	73
Present value of unfunded obligations	**(49)**	(46)
Net defined benefit assets/(liabilities)	**74**	27
Represented by:		
Assets	**123**	73
Liabilities	**(49)**	(46)
	74	27

21. Pensions and other post-retirement benefits (continued)

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

	2019 £m	2018 £m
Included within operating costs		
Administration costs	-	-
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	24	28
Past service cost - augmentations	4	-
Past service credit - redundancies	(9)	1
Past service cost - plan amendments	5	-
Special termination benefit cost - redundancies	35	-
Settlement cost/(credit)	-	3
Curtailment cost	-	(1)
	59	31
Amounts paid by fellow group undertakings	(8)	-
Total operating cost	51	31
Included within finance income and costs (note 6)		
Interest cost	(2)	11
Total included in income statement	49	42
Actuarial (loss)/gain on defined benefit obligations in the year	(121)	384
Return on assets greater than discount rate	159	110
Change in longevity swap value	(35)	-
Total included in the statement of other comprehensive income	3	494

Reconciliation of the net defined benefit asset

	2019 £m	Restated 2018 £m
Opening net defined benefit asset/(liability)	27	(507)
Net cost recognised in the income statement	(49)	(42)
Amounts paid by fellow group undertakings	(8)	-
Remeasurements effects recognised in the statement of other comprehensive income	3	496
Employer contributions	101	80
Closing net defined benefit asset	74	27

21. Pensions and other post-retirement benefits (continued)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2019 £m	2018 £m
Opening defined benefit obligations	**(3,025)**	(3,423)
Current service cost	**(24)**	(31)
Interest cost	**(76)**	(80)
Actuarial gains - experience	**(34)**	(7)
Actuarial gains/(losses) - demographic assumptions	**45**	237
Actuarial gains/(losses) - financial assumptions	**(132)**	154
Past service credit - redundancies	**9**	-
Special termination benefit cost - redundancies	**(35)**	-
Past service cost - augmentations	**(4)**	-
Past service cost - plan amendments	**(5)**	-
Employee contributions	**(1)**	(1)
Benefits paid	**128**	110
Net transfers	**39**	16
Closing defined benefit obligations	**(3,115)**	(3,025)

Changes in the fair value of plan assets

	2019 £m	2018 £m
Opening fair value of plan assets	**3,052**	2,916
Interest income	**78**	69
Return on assets greater/(less) than assumed	**159**	110
Employer contributions	**101**	80
Employee contributions	**1**	1
Change in longevity swap value	**(35)**	-
Benefits paid	**(128)**	(110)
Net transfers	**(39)**	(14)
Closing fair value of plan assets	**3,189**	3,052
Actual return on plan assets	**202**	179
Expected contributions to plans in the following year	**82**	78

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:

	National Grid Electricity Transmission Pensions %
Equities	**19**
Corporate bonds	**11**
Government securities	**-**
Property	**7**
Liability matching assets	**55**
Diversified alternatives	**3**
Longevity swap	**(1)**
Cash & cash equivalents	**1**
Other	**5**
Total	**100**

Longevity Swap

In 2018 the NGET pension scheme entered into a longevity swap arrangement covering the scheme population at the time of entering. Under this arrangement the scheme will receive a stream of payments matching the benefits payables to the members from the swap counterparty, the floating leg of the arrangement. In exchange, the NGET scheme pays the swap counterparty a stream of payments based on a fixed set of longevity assumptions, the fixed leg of the arrangement. The swap has been treated as an asset of the scheme inline with IAS 19 and IFRS 13 and accounted for as a single instrument.

IFRS requires the swap arrangement to be held at fair value, the value of the swap at the start of the year was assumed to be NIL. The value of the swap determined by the scheme actuaries was (£35) million loss. The fair value was estimated by the actuaries based on the original population at the date of the swap, assumed mortality from the inception date, demographic assumptions and, financial assumptions.

21. Pensions and other post-retirement benefits (continued)

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 Electricity, 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 NGEG 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 NGEG's 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.

21. Pensions and other post-retirement benefits (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. The NGEG of ESPS holds a longevity insurance contract (swap) which covers exposure to improvement in longevity, providing long-term protection to the scheme in the event that members live longer than expected at the time the swap was entered into.
- 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
- 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 Quoted £m	**2019 Unquoted £m**	**2019 Total £m**	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
Equities	**275**	**343**	**618**	453	335	788
Corporate bonds	**348**	**-**	**348**	360	-	360
Government securities	**-**	**-**	**-**	-	-	-
Property	**108**	**107**	**215**	129	122	251
Liability matching assets	**1,751**	**-**	**1,751**	1,174	-	1,174
Diversified alternatives[1]	**-**	**91**	**91**	-	99	99
Longevity swap	**-**	**(35)**	**(35)**	-	-	-
Cash & cash equivalents	**40**	**5**	**45**	-	-	-
Other	**-**	**156**	**156**	211	169	380
Total	**2,522**	**667**	**3,189**	2,327	725	3,052

1 Includes return seeking non-conventional asset classes.

22. Provisions

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

The main estimates relate to environmental remediation for various sites we own 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 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 environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures are recognised in the income statement.

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

	Restructuring £m	Environmental £m	Other £m	Total £m
At 1 April 2017	5	60	9	74
Additions	-	-	1	1
Unused amounts reversed	(2)	(10)	-	(12)
Unwinding of discount	-	2	-	2
Utilised	(1)	(3)	-	(4)
At 31 March 2018	2	49	10	61
Additions	71	-	1	72
Unused amounts reversed	(1)	(1)	-	(2)
Unwinding of discount	-	1	-	1
Utilised	(24)	(3)	-	(27)
Transfer to held for sale[1]	(18)	-	-	(18)
At 31 March 2019	**30**	**46**	**11**	**87**

	2019 £m	2018 £m
Current	**36**	8
Non-current	**51**	53
	87	61

1 Transfer to held for sale represents restructuring provision being transferred to ESO operations on 1 April 2019, of which £16 million is current and £2 million non-current (note 9).

Restructuring provision

During the year, a cost efficiency and restructuring programme was undertaken as detailed in note 5. This resulted in the recognition of a £71 million charge in the year and a closing provision of £48 million. We expect the majority of the provision to be utilised within one year.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by the Group. Cash flows are expected to be incurred between 2018 and 2069.

The remediation expenditure relates to electricity transmission sites. Cash flows are expected to be incurred until 2069, with £23m 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 £55m (2018: 58m based on 1% real discount rate).

22. Provisions (continued)

Other provisions

The two most significant other provisions are a health and safety claim provision of £3m (2018: £3m) and employer liability claims of £4m (2018: £6m). In accordance with insurance industry practice, the estimate of employer liability claims is based on experience from previous years and there is therefore no identifiable payment date.

23. 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 millions	Number of shares millions	**2019 £m**	2018 £m
At 31 March 2018 and 2019 - ordinary shares of 10p each				
Allotted, called-up and fully paid	**437**	437	**44**	44

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

24. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the cost of hedging reserve (see note 33), the capital redemption reserve and cash flow hedge reserve. 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 28).

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.

	Cost of hedging £m	Cash flow hedge £m	Total £m
At 31 March 2017 & 31 March 2018 (as previously reported)	-	4	4
Transfer on transition to IFRS 9	5	(5)	-
At 1 April 2018 (as restated)	5	(1)	4
Net losses taken to equity	(5)	(5)	(10)
Net losses in respect of cash flow hedging of capital expenditure	-	(4)	(4)
Tax	1	1	2
At 31 March 2019	1	**(9)**	**(8)**

25. Net debt

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

Funding and liquidity risk management is carried out by the National Grid plc treasury function under policies and guidelines approved by the Finance Committee of the National Grid plc Board, these policies have been deemed applicable at NGET 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 and commodity hedging activities can be found in the risk factors discussion in note 28 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
Increase/(Decrease) in cash and cash equivalents	**6**	(6)
Increase/(Decrease) in financial investments	**43**	(127)
(Decrease)/increase in borrowings and related derivatives [1]	**246**	(78)
Net interest paid on the components of net debt [2]	**120**	126
Change in net debt resulting from cash flows	**415**	(85)
Changes in fair value of financial assets and liabilities and exchange movements	**(18)**	26
Net interest charge on the components of net debt	**(228)**	(265)
Movement in net debt (net of related derivative financial instruments) in the year	**169**	(324)
Net debt (net of related derivative financial instruments) at the start of the year	**(7,550)**	(7,226)
Net debt (net of related derivative financial instruments) at the end of the year	**(7,381)**	(7,550)

Composition of net debt

Net debt is made up as follows:

	2019 £m	2018 £m
Cash, cash equivalents and financial investments	**284**	235
Borrowings and bank overdrafts	**(7,504)**	(7,684)
Derivatives	**(161)**	(101)
	(7,381)	(7,550)

25. Net debt (continued)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Financing derivatives £m	Total debt [1] £m
At 1 April 2017	17	350	(7,380)	(213)	(7,226)
Cash flow	(6)	(127)	(78)	126	(85)
Fair value gains and losses and exchange movements	-	-	58	(32)	26
Interest income/(charges) [1]	-	1	(284)	18	(265)
At 31 March 2018	11	224	(7,684)	(101)	(7,550)
Cash flow	6	43	430	(64)	415
Fair value gains and losses and exchange movements	-	-	(7)	(11)	(18)
Interest income/(charges) [1]	-	-	(243)	15	(228)
At 31 March 2019	17	**267**	**(7,504)**	**(161)**	**(7,381)**
Balances at 31 March 2019 comprise:					
Non-current assets	-	-	-	321	321
Current assets	17	267	-	-	284
Current liabilities	-	-	(1,830)	(112)	(1,942)
Non-current liabilities	-	-	(5,674)	(370)	(6,044)
	17	**267**	**(7,504)**	**(161)**	**(7,381)**

1 An exceptional income of £nil (2018: £3 million income) is included in net interest charge on the components of net debt.

26. Commitments and contingencies

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

Future capital expenditure	2019 £m	2018 £m
Contracted for but not provided	**1,169**	789
Operating lease commitments		
Amounts due:		
Less than 1 year	**11**	13
In 1 - 2 years	**7**	10
In 2 - 3 years	**4**	6
In 3 - 4 years	**1**	4
In 4 - 5 years	**-**	1
More than 5 years	**-**	-
	23	34

Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13 million (2018: £13 million). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,263 million (2018: £1,341 million). These include guarantees of certain obligations for construction of the Western Link HVDC amounting to £53 million (2018: £125 million), expected to expire in 2019.

Security arrangements in favour of NGEG Trustees are disclosed separately in note 21.

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.

27. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Grid Electricity Transmission plc. The related parties identified include 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[1]	**28**	37
	28	37
Expenditure:		
Services received[2]	**37**	146
Corporate services received	**18**	17
Interest paid on borrowings from fellow subsidiary undertakings	**26**	(17)
	81	146
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable[3]	**1**	10
Amounts payable	**-**	83
Borrowings from fellow subsidiary undertakings (amounts due within one year)	**(1)**	(1)
Borrowings from fellow subsidiary undertakings (amounts due after more than one year)	**(1,389)**	(1,580)
At 31 March	**(1,390)**	(1,581)
Borrowings from ultimate parent (amounts due after more than one year)		
At 31 March	**(358)**	(350)

1 Includes £7m in respect of joint ventures (2018: £7m).
2 Includes £27m in respect of joint ventures (2018: £137m).
3 Includes £0.3 million in respect of joint ventures (2018: £nil million).

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

Details of key management compensation are provided in note 4(c) and information relating to pension fund arrangements is disclosed in note 21.

28. Financial risk management

Our activities expose us to a variety of financial risks including credit risk, liquidity risk, capital risk, currency risk, interest rate risk and inflation 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 NGET 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 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 or revenues) 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 derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, primarily trade receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2019, the following limits were in place for investments held with banks and financial institutions:

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 2019 and 2018, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties.

28. 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 Electricity Transmission plc's net exposure.

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

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

For bank account balances and bank overdrafts, the ‘Gross amounts offset’ under cash pooling arrangements is £17 million as at March 2019 (£26 million as at March 2018). Our UK bank accounts for National Grid 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	**321**	**-**	**321**	**(209)**	**(36)**	**76**
	321	**-**	**321**	**(209)**	**(36)**	**76**
Liabilities						
Financing derivatives	**(482)**	**-**	**(482)**	**209**	**254**	**(19)**
	(482)	**-**	**(482)**	**209**	**254**	**(19)**
Total	**(161)**	**-**	**(161)**	**-**	**218**	**57**

			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	420	-	420	(254)	(96)	70
	420	-	420	(254)	(96)	70
Liabilities						
Derivative financial instruments	(521)	-	(521)	254	222	(45)
	(521)	-	(521)	254	222	(45)
Total	(101)	-	(101)	-	126	25

28. 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 26 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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

The following is 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	**(1,787)**	**(447)**	**(358)**	**(4,777)**	**(7,369)**
Interest payments on borrowings [1]	**(132)**	**(120)**	**(111)**	**(1,620)**	**(1,983)**
Other non-interest bearing liabilities	**(708)**	**(86)**	**-**	**-**	**(794)**
Derivative financial liabilities					
Derivative contracts - receipts [2]	**477**	**97**	**30**	**495**	**1,099**
Derivative contract - payments [2]	**(610)**	**(136)**	**(56)**	**(872)**	**(1,674)**
Derivative financial assets					
Derivative contract - receipts [2]	**187**	**115**	**68**	**562**	**932**
Derivative contract - payments [2]	**(82)**	**(83)**	**(42)**	**(391)**	**(598)**
Total at 31 March 2019	**(2,655)**	**(660)**	**(469)**	**(6,603)**	**(10,387)**

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	(2,284)	(221)	(434)	(4,620)	(7,559)
Interest payments on borrowings [1]	(120)	(114)	(103)	(1,547)	(1,884)
Other non-interest bearing liabilities	(594)	(83)	-	-	(677)
Derivative financial liabilities					
Derivative contract - receipts [2]	234	322	34	179	769
Derivative contract - payments [2]	(387)	(441)	(82)	(486)	(1,396)
Derivative financial assets					
Derivative contract - receipts [2]	335	185	128	505	1,153
Derivative contract - payments [2]	(186)	(87)	(58)	(377)	(708)
Total at 31 March 2018	(3,002)	(439)	(515)	(6,346)	(10,302)

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.

28. 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	**17**	**-**	**-**	**-**	**17**
Financial investments	**267**	**-**	**-**	**-**	**267**
Borrowings	**(6,620)**	**(364)**	**-**	**(520)**	**(7,504)**
Pre-derivative position	**(6,336)**	**(364)**	**-**	**(520)**	**(7,220)**
Derivative effect	**(1,245)**	**538**	**17**	**529**	**(161)**
Net debt position	**(7,581)**	**174**	**17**	**9**	**(7,381)**

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

The exposure to dollars largely relates to our net investment hedge activities; exposure to euros largely relates to hedges for our future non-sterling capital expenditure.

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.

28. Financial risk management (continued)

(d) Interest rate risk

National Grid Electricity Transmission plc's 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 17 (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**
Cash and cash equivalents	**-**	**17**	**-**	**-**	**17**
Financial investments	**-**	**267**	**-**	**-**	**267**
Borrowings	**(2,061)**	**(1,797)**	**(3,646)**	**-**	**(7,504)**
Pre-derivative position	**(2,061)**	**(1,513)**	**(3,646)**	**-**	**(7,220)**
Derivative effect	**220**	**(243)**	**(138)**	**-**	**(161)**
Net debt position	**(1,841)**	**(1,756)**	**(3,784)**	**-**	**(7,381)**

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

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

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Grid Electricity Transmission 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 Electricity Transmission 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.

28. Financial risk management (continued)

(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	Cash flow hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency risk
	£m	£m	£m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	-	(4)	(4)
Cost of hedging	(2)	(4)	-
Transferred to profit or loss in respect of:			
Cash flow hedges	-	-	-
Cost of hedging	1	-	-
Consolidated statement of changes in equity			
Other equity reserves - cost of edging balances	2	(1)	-
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments [1]			
Assets - current	-	-	-
Assets - non-current	63	28	-
Liabilities - current	(9)	(12)	(2)
Liabilities - non-current	(8)	(49)	(3)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Nov 2019 - Mar 2035	Nov 2019 - Feb 2039	Apr 2019 - Dec 2023
Spot FX range			
GBP USD	n/a	n/a	1.29 - 1.39
GBP EUR	1.19 - 1.24	1.14 - 1.24	1.07 - 1.17
Interest rate range			
GBP	Libor +79bps/+561bps	2.027% - 4.016%	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.

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 as 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]	(558)	(15)	(34)	(15)	18	3

1 The carrying vale of the hedged borrowings is £649 million, of which £98 million is current and £551 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 ineffectiveness £m
Foreign currency and interest rate risk on borrowings	(974)	(5)	-	4	(4)	-
Foreign currency risk on forecasted cash flows	(201)	(2)	-	4	(4)	-

28. 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								
Financing derivatives	**-**	**321**	**-**	**321**	-	420	-	420
	-	**321**	**-**	**321**	-	420	-	420
Liabilities								
Financing derivatives	**-**	**(345)**	**(137)**	**(482)**	-	(383)	(138)	(521)
	-	**(345)**	**(137)**	**(482)**	**-**	(383)	(138)	(521)
Net	**-**	**(24)**	**(137)**	**(161)**	-	37	(138)	(101)

1 The available-for-sale investments have been reclassified, with the adoption of IFRS 9 (see notes 12 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.

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

	Financing derivatives	
	2019 £m	2018 £m
At 1 April	**(138)**	(252)
Net gain for the year [1]	**1**	9
Settlements	**-**	105
At 31 March	**(137)**	**(138)**

1 Gain of £1 million (2018: £9 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 £m	2018 £m
+20 basis points change in LPI (Limited Price Inflation) market curve [1]	**(55)**	(52)
-20 basis points change in LPI market curve [1]	**52**	51

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.

28. Financial risk management (continued)

(g) 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 25). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our 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 60%. The RAV gearing ratio at 31 March 2019 was 55% (2018: 58%).

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 Electricity Transmission plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

These restrictions are subject to 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.

29. 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 based on assumptions and conditions prevailing at the year-end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

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

The sensitivities included in the tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

(a) Sensitivities on areas of 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 a material adjustment 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]				
UK Discount rate increase of 0.5% [2]	**3**	**249**	3	244
UK RPI rate increase of 0.5% [3]	**3**	**262**	2	257
UK long-term rate of increase in salaries change of 0.5% [4]	**1**	**34**	1	36
UK increase of one year to life expectancy at age 65	**1**	**126**	1	119
Environmental provision:				
10% change in estimated future cash flows	**4**	**4**	4	4

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 defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 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.

29. Sensitivities (continued)

(b) Sensitivities on financial instruments

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

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 25 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 deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

	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]	**15**	**-**	17	-
UK interest rate changes of 0.5%	**7**	**28**	8	18

1 Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 28.

Additional sensitivities in respect to our derivative fair values are as follows:

	2019		2018	
Assets and liabilities carried at fair value (pre-tax):	**Income statement £m**	**Net assets £m**	Income statement £m	Net assets £m
10% fair value change in derivative financial instruments [1]	**(16)**	**(16)**	(10)	(10)

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

30. Ultimate parent company

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

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

31. Subsidiary undertakings, joint ventures and associates

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

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

	Principal activity	Holding
Elexon Limited[1] 4th Floor 350 Euston Road, London, NW1 3AW	Electricity market Balance and Settlement Code company for Great Britain	100%
NGC Employee Shares Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Trustee of the NGC profit sharing scheme and NGC Employee Trust	50%
National Grid Electricity Group Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Pension nominee company	100%

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

All subsidiaries are incorporated in England and Wales.

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

	Principal activity	Holding
NGET/SPT Upgrades Limited 1 - 3 Strand, London, WC2N 5EH	Construction services for the England-Scotland interconnector	50%

Associates

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

	Principal activity	Holding
Coreso SA (incorporated in Belgium) 71 Avenue de Cortnbergh, 1000 Bruxelles, Belgium.	Associate in relation to a European regional transmission operations coordination centre	16%

The Coreso SA shares were transferred to NGESO on 3 May 2019 as part of the sale of the ESO business from NGET to NGESO Ltd.

32. Events After The Reporting Period

As set out in note 9 of the financial statements on page 68, on 1 April 2019, NGET sold its ESO business to an associated entity, National Grid Electricity System Operator Limited. The enterprise valuation for the ESO business was £450 million.

33. Transition to IFRS 9 and IFRS 15

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 is set out in the following table:

	31 March 2018 as previously reported £m	Transition adjustments IFRS9 £m	Transition adjustments IFRS15 £m	1 April 2018 As restated £m
Non-current assets				
Intangible assets	273	-	-	273
Property, plant and equipment	12,800	-	-	12,800
Prepayments	11	-	-	11
Pension Asset	73	-	-	73
Derivative financial assets	395	-	-	395
Total non-current assets	13,552	-	-	13,552
Current assets				
Inventories	42	-	-	42
Trade and other receivables[2]	299	-	-	299
Financial and other investments[1]	224	-	-	224
Derivative financial assets	25	-	-	25
Current tax asset	3	-	-	3
Cash and cash equivalents	11	-	-	11
Total current assets	604	-	-	604
Total assets	14,156	-	-	14,156
Current liabilities				
Borrowings	(2,327)	-	-	(2,327)
Derivative financial liabilities	(132)	-	-	(132)
Trade and other payables	(964)	-	12	(952)
Contract liabilities	-	-	(12)	(12)
Provisions	(8)	-	-	(8)
Total current liabilities	(3,431)	-	-	(3,431)
Non-current liabilities				
Borrowings	(5,357)	-	-	(5,357)
Derivative financial liabilities	(389)	-	-	(389)
Other non-current liabilities	(496)	-	388	(108)
Contract liabilities	-	-	(350)	(350)
Deferred tax liabilities	(910)	-	(6)	(916)
Pensions benefit obligations	(46)	-	-	(46)
Provisions	(53)	-	-	(53)
Total non-current liabilities	(7,251)	-	32	(7,219)
Total liabilities	(10,682)	-	32	(10,650)
Net assets	3,474	-	32	3,506
Equity				
Share capital	44	-	-	44
Retained earnings	3,426	-	32	3,458
Cash flow hedge reserve[3, 4]	4	(5)	-	(1)
Other equity reserves[4]	-	5	-	5
Total equity	3,474	-	32	3,506

33. Transition to IFRS 9 and IFRS 15 (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:

IFRS 9 has changed the accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. The Group holds derivative assets, derivative liabilities, trade receivables, cash at bank and short-term deposits, borrowings measured at amortised cost and trade payables. Neither the classification nor the measurement of these items has changed on transition to IFRS 9. 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. Loans to fellow subsidiary undertakings, cash at bank, and short-term deposits are classified at amortised cost as they have contractual cash flows which are solely payments of principal and interest and the Group holds them to collect contractual cash flows.

   Aside from derivative financial instruments, which remain classified as FVTPL, the Group 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 Group’s credit loss provision. The Group calculates its impairment provision on trade receivables by performing assessments on individual debtors.

3. Deferred tax is recognised on the adjustments recorded on the transition to IFRS 9. Reserve impacts are stated net of related deferred tax.
4. 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 £5 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.

33. Transition to IFRS 9 and IFRS 15 (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 revenues collected on behalf of the Scottish and Offshore transmission operators) 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 £1,166 million higher, with no impact to operating profits.
- 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 £14 million and £13 million lower, respectively.

Adjustments arising as a result of the transition to IFRS 15:

5. Contributions relating to diversions in our UK businesses are recognised as revenue as the works are completed where previously revenue was recognised over the life of the asset.
6. 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.
7. The transition adjustment reflects the net of the above.

Company balance sheet

as at 31 March

	Notes	2019 £m	2018 £m
Fixed assets			
Intangible assets	5	**107**	273
Tangible assets	6	**12,944**	12,800
		13,051	13,073
Current assets			
Stocks	7	**43**	42
Debtors	8	**112**	313
Derivative financial instruments (amounts falling due within one year)	9	**-**	25
Derivative financial instruments (amounts falling due after more than one year)	9	**321**	395
Investments	10	**267**	224
Net Pension asset	15	**74**	27
Cash at bank and in hand		**4**	11
Assets held for sale		**639**	-
Total current assets		**1,460**	1,037
Borrowings	13	**(1,830)**	(2,327)
Derivative financial instruments	9	**(112)**	(134)
Other creditors		**(593)**	(964)
Liabilities held for sale		**(495)**	-
Creditors (amounts falling due within one year)	11	**(3,030)**	(3,423)
Net current liabilities		**(1,570)**	(2,386)
Total assets less current liabilities		**11,481**	10,687
Creditors (amounts falling due after more than one year)	12	**(6,546)**	(6,243)
Net pension liability	15	**-**	-
Provisions for liabilities	14	**(983)**	(956)
Net assets		**3,952**	3,488
Capital and reserves			
Share capital	16	**44**	44
Cash flow hedge reserve		**(8)**	4
Profit and loss account		**3,916**	3,440
Total shareholders' equity		**3,952**	3,488

The notes on pages 105 to 118 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 24 July 2019 and were signed on its behalf by:

Nicola Shaw Chair

Alan Foster Director

National Grid Electricity Transmission plc
Registered number: 2366977

Company statement of changes in equity

for the years ended 31 March

	Called up share capital £m	Other equity reserves £m	Profit and loss account £m	Total equity £m
At 1 April 2017	44	(4)	3,036	3,076
Profit for the year	-	-	689	689
Total other comprehensive loss for the year	-	8	410	418
Total comprehensive income for the year	-	8	1,099	1,107
Equity dividends	-	-	(700)	(700)
Share-based payments	-	-	4	4
Tax on share-based payments	-	-	1	1
At 31 March 2018	44	4	3,440	3,488
Profit for the year	-	-	470	470
Total other comprehensive income for the year	-	(12)	3	(9)
Total comprehensive income for the year	-	(12)	473	461
Equity dividends	-	-	-	-
Share-based payments	-	-	3	3
Tax on share-based payments	-	-	-	-
At 31 March 2019	**44**	**(8)**	**3,916**	**3,952**

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company's profit for the financial year was £470m (2018: £689m).

For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

There was no impact of the IFRS 9 and 15 adjustments on the statements of changes in equity.

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

These 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 23.

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 adoption of IFRS 9 has had no material impact on the Company.

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 15;
- valuation of financial instruments and derivatives – note 9;
- revenue recognition and assessment of unbilled revenue;
- environmental and other provisions – note 14.

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 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.

Notes to the Company financial statements

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.

Additions represent the purchase or construction of new assets, extensions to, or significant increases in, the capacity of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

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	
- Electricity Transmission plant	15 to 100
Motor vehicles and office equipment	Up to 7

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.

Notes to the Company 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

The sales value for the transmission of electricity is largely determined from the amount of electricity transmitted in the year and system capacity sold for the year, evaluated at contractually determined prices or recovery rates. The sales value for the provision of balancing services is based on the amount of system balancing costs incurred.

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 adoption of IFRS 9 has had no material impact on the Company.

The policies are set out in notes 7, 10, 13 and 17 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in the notes to the consolidated financial statements.

Notes to the Company financial statements

1. Company accounting policies (continued)

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.

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. 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 parent company and consolidated financial statements	**0.4**	0.3
Other services		
Fees payable to the Company's auditors for audit related assurance services	**0.4**	0.5
Other non-audit fees	**-**	0.1

Fees payable to the Company's auditors for audit related assurance services represents fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular this includes fees for audit reports on regulatory returns.

3. Number of employees, including Directors

	2019 Monthly Average number	2018 Monthly Average number
Electricity Transmission	**3,487**	3,703

4. Directors' emoluments

Details of Directors' emoluments are provided in note 4(d) to the consolidated financial statements.

5. Intangible assets

	Software £m
Cost at 1 April 2018	520
Additions	72
Disposals	(3)
Reclassifications between categories[1]	4
Transfer to held for sale[2]	(333)
Cost a 31 March 2019	260
Accumulated amortisation at 1 April 2018	(247)
Amortisation charge for the year	(57)
Disposals	5
Transfer to held for sale[2]	146
Accumulated amortisation a 31 March 2019	(153)
Net book value at 31 March 2019	**107**
Net book value at 31 March 2018	273

1 Reclassifications include amounts transferred between categories and from tangible assets (see note 6).

2 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019 (note 9 of consolidated financial statements).

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	874	14,121	2,764	120	17,879
Additions	22	190	641	-	853
Disposals[1]	(1)	(92)	(173)	(11)	(277)
Reclassifications between categories[2]	124	946	(1,079)	5	(4)
Transfer to held for sale[3]	(76)	(1)	(55)	(50)	(182)
Cost a 31 March 2019	943	15,164	2,098	64	18,269
Accumulated depreciation at 1 April 2018	(127)	(4,860)	-	(92)	(5,079)
Depreciation charge for the year	(15)	(412)	-	(8)	(435)
Disposals[1]	-	92	-	10	102
Reclassifications between categories [2]	-	-	-	-	-
Transfer to held for sale[3]	47	-	-	40	87
Accumulated depreciation a 31 March 2019	(95)	(5,180)	-	(50)	(5,325)
Net book value at 31 March 2019	**848**	**9,984**	**2,098**	**14**	**12,944**
Net book value at 31 March 2018	747	9,261	2,764	28	12,800

1 Disposals include £102m of nil net book value assets written off and UK nuclear connections development costs of £150 million (before £13 million of termination income) which were written off (2018: £nil).

2 Reclassifications represents transfers between asset categories and to intangible assets (see note 4). The current year includes £87m of easements reclassified into land and buildings from assets under construction.

3 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019 (note 9 of consolidated financial statements).

The net book value of land and buildings comprised:

	2019 £m	2018 £m
Freehold	**779**	671
Long leasehold (over 50 years)	**25**	10
Short leasehold (under 50 years)	**44**	66
	848	747

The cost of tangible fixed assets at 31 March 2019 included £1,451m (2018: £1,401m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £10m (2018: £46m) and £416m (2018: £387m) respectively.

7. Stocks

	2019 £m	2018 £m
Raw materials, spares and consumables	**43**	42

Stocks are stated after provisions for obsolescence of £12m (2018: £12m).

8. Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade debtors	**15**	49
Amounts owed by fellow subsidiary undertakings	**18**	10
Other debtors	**22**	43
Prepayments and accrued income	**46**	200
Amounts falling due after more than one year:		
Prepayments	**11**	11
	112	313

Debtors are stated after provisions for impairment of £36m (2018: £4m).

9. 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	**-**	**(112)**	**(112)**	25	(132)	(107)
Amounts falling due after more than one year	**321**	**(370)**	**(49)**	395	(389)	6
	321	**(482)**	**(161)**	420	(521)	(101)

Further information relating to the recognition and measurement of derivative financial instruments is included in note 13 of the consolidated financial statements.

For each class of derivative the notional contract amounts[1] are as follows:

	2019 £m	2018 £m
Interest rate swaps	**(2,844)**	(3,416)
Cross-currency interest rate swaps	**(809)**	(620)
Foreign exchange forward currency	**(319)**	(223)
Inflation linked swaps	**(300)**	(494)
	(4,272)	(4,753)

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

10. Investments

	2019 £m	2018 £m
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances[1]	**266**	223
	267	224

Investment in subsidiaries of £0.2m (2018: £0.2m) are included within fixed assets. The names of the subsidiary undertakings are included in note 31 to the consolidated financial statements.

1 Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £266m (2018: £223m).

11. Creditors (amounts falling due within one year)

	2019 £m	2018 £m
Borrowings (note 13)	**1,830**	2,327
Derivative financial instruments (note 9)	**112**	132
Trade creditors	**404**	367
Amounts owed to fellow subsidiary undertakings	**72**	83
Social security and other taxes	**42**	86
Other creditors	**12**	19
Accruals and deferred income	**63**	409
Liabilities held for sale	**495**	-
	3,030	3,423

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

	2019 £m	2018 £m
Borrowings (note 13)	**5,674**	5,357
Derivative financial instruments (note 9)	**370**	389
Other creditors	**86**	85
Deferred income	**416**	412
	6,546	6,243

13. Borrowings

The following table analyses the company's total borrowings:

	2019 £m	2018 £m
Amounts falling due within one year:		
Bank loans	**102**	151
Bonds	**265**	595
Commercial paper	**73**	-
Borrowings from fellow subsidiary undertakings	**1**	1
Borrowings from ultimate parent company	**1,389**	1,580
	1,830	2,327
Amounts falling due after more than one year:		
Bank loans	**1,700**	1,731
Bonds	**3,616**	3,276
Borrowings from ultimate parent company	**358**	350
	5,674	5,357
Total borrowings	**7,504**	7,684

	2019 £m	2018 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,830**	2,327
In 1 - 2 years	**447**	221
In 2 - 3 years	**358**	434
In 3 - 4 years	**116**	350
In 4 - 5 years	**167**	113
More than 5 years by instalments	**865**	901
More than 5 years other than by instalments	**3,721**	3,338
	7,504	7,684

The notional amount outstanding of the Company's debt portfolio at 31 March 2019 was £7,369m (2018: £7,559m).

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

14. Provisions for liabilities

	Deferred tax	Restructuring £m	Environ-mental £m	Other £m	Total £m
At 1 April 2018	895	2	49	10	956
Charged to the profit and loss account	14	71	-	1	86
Transferred to reserves	(2)		-	-	(2)
Released to income statement (unused)	-	(1)	(1)	-	(2)
Unwinding of discount	-		1	-	1
Utilised	-	(24)	(3)	-	(27)
Transfer to held for sale[1]	(11)	(18)	-	-	(29)
At 31 March 2019	**896**	**30**	**46**	**11**	983

1 Transfer to held for sale represents restructuring provision and deferred tax being transferred to ESO operations on 1 April 2019 (note 9 of consolidated financial statements).

Details of the environmental provision and other provisions are shown in note 18 to the consolidated financial statements.

Deferred tax

Deferred tax provided in the financial statements comprises:

	2019 £m	2018 £m
Accelerated capital allowances	**895**	894
Other timing differences	**(11)**	(3)
Included within provisions for liabilities and charges	**884**	891
Pensions liability (note 15)	**12**	4
	896	895

15. Pensions

National Grid Electricity Transmission plc's employees are members of either the National Grid Electricity Group of the Electricity Supply Pension Scheme (the Scheme) which is a defined benefit pension scheme or The National Grid YouPlan which is a defined contribution trust. Further details of the Scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 21 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	**(3,066)**	(2,979)
Fair value of plan assets	**3,189**	3,052
	123	73
Present value of unfunded obligations	**(49)**	(46)
Net asset in the balance sheet	**74**	27
Related deferred tax liability (note 14)	**(12)**	(4)
Net pension asset	**62**	23

Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(3,025)**	(3,423)
Current service cost	**(24)**	(31)
Interest cost	**(76)**	(80)
Actuarial gains - experience	**(34)**	(7)
Actuarial losses - financial assumptions	**(132)**	154
Actuarial losses - demographic assumptions	**45**	237
Past service credit - redundancies	**9**	-
Special termination benefit cost - redundancies	**(35)**	-
Past service cost - augmentations	**(4)**	-
Past service cost - plan amendments	**(5)**	-
Employee contributions	**(1)**	(1)
Benefits paid	**128**	110
Net transfers	**39**	16
Closing defined benefit obligations	**(3,115)**	(3,025)

Changes in the fair value of scheme assets		
Opening fair value of plan assets	**3,052**	2,916
Interest income	**78**	69
Return on assets greater than assumed	**159**	110
Employer contributions	**101**	80
Employee contributions	**1**	1
Settlement of assets	**(35)**	-
Benefits paid	**(128)**	(110)
Net cash	**(39)**	(14)
Closing fair value of scheme assets	**3,189**	3,052

16. Share capital

	Number of shares 2019 millions	Number of shares 2018 millions	**2019 £m**	2018 £m
At 31 March 2017 and 2018 - ordinary shares of 10p each				
Allotted, called-up and fully paid	**437**	437	**44**	44

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. See note 30 of the consolidated accounts for further details.

17. Other equity reserves

	Cost of hedging £m	Cash flow hedge £m	Other equity £m
At 31 March 2017 & 31 March 2018 (as previously reported)	-	4	4
Transfer on transition to IFRS 9	5	(5)	-
At 1 April 2018 (as restated)	5	(1)	4
Net gains taken to equity	(5)	(5)	(10)
Net losses in respect of cash flow hedging of capital expenditure	-	(4)	(4)
Tax	1	1	2
At 31 March 2019	**1**	**(9)**	**(8)**

18. Commitments and contingencies

(a) Future capital expenditure

	2019 £m	2018 £m
Contracted for but not provided	**1,169**	789

(b) Operating lease commitments

	2019 £m	2018 £m
Amounts due:		
Less than 1 year	**11**	13
In 1 - 2 years	**7**	10
In 2 - 3 years	**4**	6
In 3 - 4 years	**1**	4
In 4 - 5 years	**-**	1
More than 5 years	**-**	-
	23	34

(c) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13m (2018: £13m). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,263 million (2018: £1,341 million). These include guarantees of certain obligations for construction of the Western Link HVDC amounting to £53 million (2018: £125 million), expected to expire in 2019.

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.

The company had no other off balance sheet commitments.

19. Related parties

The following material transactions are with joint ventures and associates of ultimate parent company, 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	**8**	8
Services received	**27**	137
Amounts receivable at 31 March	**1**	-
Amounts payable at 31 March	**-**	-

Amounts payable or receivable are ordinarily settled one month in arrears. £nil (2018: £nil) amounts have been provided at 31 March 2019 and £nil (2018: £nil) expense has been recognised during the year in respect of bad or doubtful debts from the above related party transactions.

Glossary and definitions

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

BSIS

The Balancing Services Incentive Scheme, an incentive arrangement applicable to the Company's electricity transmission arrangements.

Delivery Body
Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid Electricity Transmission's system operator function became the EMR Delivery Body. In this role National Grid Electricity Transmission provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid Electricity Transmission also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

EU
European Union.

FRS
UK Financial Reporting Standard.

GAAP
Generally accepted accounting principles.

GHG
Greenhouse gas.

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

IASB
International Accounting Standards Board.

IFRIC
The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS
International Financial Reporting Standard.

KPI
Key Performance Indicator.

Lost time injury
A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid
National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

Ofgem
The Office of Gas and Electricity Markets.

Regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects to inflation.

Regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013.

RoE
A performance metric measuring returns from the investment of shareholders' funds.

UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI
UK Retail Prices Index

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

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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