National Grid Electricity Transmission plc
Annual Report and Accounts 2016/17

Company number 2366977

Contents

Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission) is a subsidiary of National Grid plc (National Grid), based in the 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 14,000 circuit kilometres of overhead line, 640 circuit kilometres of underground cable and 299 substations. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use. See pages 6 and 7 for further details.

The overall governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Our Directors are listed on page 35.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2016/17 and on National Grid's website at www.nationalgrid.com.

Financial highlights

	2016/17 £m	2015/16 £m	Percentage change
Operating profit [1]	**1,346**	1,161	16%
Cash generated from operations	**1,659**	1,474	13%
Regulated assets[2]	**12,464**	11,830	5%

1. There were no exceptional items within operating profit for the year ended 31 March 2017 or 2016, see page 23 for further details.
2. See page 27 for further details.

	2016/17 £m	2015/16 £m
Return on equity	**13.6%**	13.9%

Non-financial highlights

	2016/17	2015/16
Number of employees	**3,692**	3,520
Network reliability	**99.999964%**	99.999998%

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.

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 France, Ireland, Northern Ireland and the Netherlands. National Grid, through separate companies held outside of National Grid Electricity Transmission, owns part of the interconnectors with France and the Netherlands. It has also now entered the construction phase for two new interconnectors, between the UK and Belgium and the UK and Norway and agreed to build a second interconnector with France.

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

3. Transmission

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

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

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

4. Distribution

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

We do not own or operate electricity distribution networks.

5. Supply

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

We do not sell electricity to consumers.

What we do – Regulation

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

How we make money from our regulated assets
Our licence, established under the Electricity Act 1989, as amended (the Act) requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of electricity in Great Britain (GB). They also give 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 established price control mechanisms that set the amount of revenue our regulated business can earn. Price control regulation is designed to make sure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices. This gives us a future level of revenue that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investment.

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 one covering 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.

RIIO price controls
Our regulatory framework is called RIIO (revenue = incentives + innovation + outputs) and lasts for eight years until March 2021. 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.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has incentive mechanisms that encourage us to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

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

The five output categories are:

- **Safety** - ensuring the provision of a safe energy network.
- **Reliability (and availability)** - promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.
- **Environmental impact** - encouraging companies to play their role in achieving broader environmental objectives, specifically, facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.
- **Customer and stakeholder satisfaction** - maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.
- **Customer connections** - encouraging networks to connect customers quickly and efficiently.

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

Totex
Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is the sum of what was defined in previous

price controls as operating expenditure (opex) and capital expenditure (capex).

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

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

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

Allowances to fund totex costs are split between fast and slow money – a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the year. Slow money is added to our regulatory asset value (RAV) – effectively the regulatory IOU. For more details on the fast / slow money rates and sharing factors under RIIO, please see the table on page 5.

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.

Return on equity and cost of debt – regulated assets are funded through debt or equity. Our regulatory agreement sets this ratio. The equity portion earns a 'return on equity'. This represents the profit we can earn on our investment in regulated assets. The debt portion earns an allowance based on the cost of debt (interest costs).

Ofgem use an external benchmark interest rate to incentivise us to raise debt efficiently. The benchmark interest method also provides an opportunity to outperform our regulatory allowance. The allowed rates of return on equity and debt are included in the table on page 5.

Depreciation of regulated assets – the value of regulated assets is depreciated over an anticipated lifespan. The amount of depreciation is included in our allowed revenue, which represents the repayment of the amount we have invested in the asset.

The asset life for regulatory depreciation in electricity transmission is increasing to 45 years for transmission and 7 years for the system operator over the RIIO period. Additions to the RAV in 2016/17 have a life of 32.500 years (2015/16: 29.375 years).

We are also allowed to collect additional revenues related to non-controllable costs.

Performance against incentives – our price controls includes incentives that are designed to encourage specific actions, such as reducing greenhouse gas emissions.

Outperforming against incentive targets can increase our allowed revenues in the current year or a future year. Failing to achieve certain minimum targets may lead to a reduction in our allowed revenue.

Timing – our regulated revenue entitlements are set based on our regulatory price controls. We use forecast energy volumes that we expect to deliver to set the billing tariff. Where there is a difference between the actual and estimated energy volumes, the amount of revenue we collect will be different. We recover or repay this difference in a future year.

Mid Period Review

Under the RIIO controls, we are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight year price control includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs.

During the eight year period of the price control our regulator included a provision for a potential 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.

In May 2016, Ofgem announced a mid-period review of the RIIO-T1 price control looking at specific output measures for our Transmission business. The outcome of the review was that Ofgem removed outputs relating to fault level mitigations and reduced allowances by £38 million in our TO control. Ofgem added allowances of £21 million in our SO control to reflect additional system operator services. These changes flow through to an adjustment to our revenues from April 2018. The conclusion of the mid-period review of the RIIO price control for Transmission has given us certainty over our core revenues for the remaining RIIO period.

Allowed returns

The cost of capital allowed under RIIO is as follows:

Cost of equity (post-tax real)	7.0%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.38% for 2016/17)
Notional gearing	60.0%
Vanilla WACC*	4.22%

*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	46.89%	46.89%

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

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

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website, www.nationalgrid.com.

Principal operations

We own and operate the electricity transmission network in England and Wales, ensuring electricity is transported safely and efficiently from where it is produced to where it is consumed.

Electricity Transmission Owner

Our Electricity Transmission network comprise approximately 14,000 circuit kilometres of overhead line, 640 circuit kilometres of underground cable and 299 substations.

This year, sadly, safety has been brought into the sharpest focus for all of us. A National Grid Electricity Transmission employee died following an incident at our East Claydon substation. We are continuing to co-operate with the Health and Safety Executive (HSE) as it carries out its independent investigation. We are also implementing a wide-ranging plan aimed at delivering safety improvements. Safety will continue to be a fundamental priority.

We welcomed the conclusion of the mid-period review of the RIIO price control for Transmission which has given us certainty over our core revenues for the remaining RIIO period. Ofgem made some adjustments to allowances for outputs no longer needed in the RIIO period, and approved additional funding for new activities undertaken by the Electricity System Operator (ESO).

We have also taken the decision to volunteer a deferral of £480 million of RIIO-T1 allowances. This deferral will enable better alignment of the allowances with the likely timing of spend and also help to lower bills in the near term. Ofgem continues its work to enable onshore competition in electricity transmission. The majority of projects will not be contested, and we believe we are well placed to compete for any that are. We are also providing input and support into the ongoing development of the regulatory framework for competition.

Earlier in 2017, The Department for Business Energy and Industrial Strategy (BEIS) confirmed, through the 'Building our Industrial Strategy' green paper, its intention to focus on developing technical education and skills. We received an 'Outstanding' grade from Ofsted, for the third time consecutively, on the standard of apprentice training offered by our Academy. Addressing the skills shortage, and providing high-quality training, remains important to us.

Market Context

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

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

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

Operational performance

Our key performance indicators are reported in detail on page 10, the overall reliability of supply for our transmission system in 2016/17 was 99.999964%.

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

This year we made good progress on several projects. We have improved the way we consult with all our stakeholders on major projects by simplifying how we present information – using clear language, more visual displays and virtual reality modelling – and by holding more events in a variety of easily accessible venues. We received positive feedback on our stakeholder engagement via our major project survey.

The customer satisfaction results for Electricity Transmission decreased slightly compared to last year. We are working hard across our business to truly place customers at the heart of our operations. We have started a series of workshops so we can gain a more in-depth understanding of their requirements. We have also started to examine each point of contact they have with our Company, so we can identify where we can improve our processes and our customers' experience with us. We will be testing proposed improvements with customers before we implement them.

System Operator

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

Market context

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

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

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

Operational performance

We continue to play a leading role in helping develop the UK's future energy strategy, and that of Europe. Our approach includes working with customers and stakeholders on initiatives such as the development of new demand side services in the form of the Power Responsive programme, our Future Energy Scenarios reports, and System Operability Framework workshops and webinars.

Building on customer and stakeholder feedback, we have reviewed our operations and restructured our organisation to deliver what our customers need. Our customer survey process has been improved, so we can better understand our performance and develop action plans to improve the services we deliver.

In November 2016, Ofgem confirmed funding for new Network Innovation Competition projects. We were successful in our bid with UK Power Networks on the 'Power Potential' project, which is a new £9.5 million market trial relating to voltage control. Also, National Grid will work with SP Energy Networks on a £19.9 million project that will help address some of the current and future challenges associated with the stability of Britain's electricity transmission system as we transition to low-carbon energy.

On 23 August 2016, Ofgem announced that it would allow National Grid to include approximately half of the additional costs of procuring Black Start capability with Drax and Fiddler's Ferry in the target costs for the Balancing Services Incentive Scheme (BSIS), against which the actual costs are measured. The remainder of the additional costs are included as part of the total costs within the overall incentive scheme, where National Grid retains 30% of the benefit of cost savings up to a cap of £30 million a year. These additional costs would be set against any outperformance in the current year up to the level of the cap.

Shaping the future of energy

We have collaborated with organisations that provide demand side flexibility to develop new electricity balancing services. Enhanced Frequency Response provides a sub-second response to fluctuations in system frequency and contracts have been awarded for over 200 MW of battery storage. Our Demand Turn Up service was used for the first time during the summer, calling on organisations to make productive use of excess electricity in the system during this traditionally low-usage period.

We developed these balancing services in anticipation of fundamental changes in system operation. This year, for the first time, we saw periods where no coal-fired power stations generated electricity and periods where the Scottish network was operated successfully with no fossil fuel generation. This was against a backdrop of an increase in installed wind and solar generation of more than 10%.

We continue to provide input to Government and Ofgem on the development of future energy systems. This includes the call for evidence on 'A Smart Flexible Energy System', which examines how we can make the most of innovation and new technologies in designing the future electricity system.

At a European level, we have worked closely with organisations such as ENTSO-E (the European Network of Transmission System Operators – for electricity) to implement a number of framework changes in a way that works for Britain's energy market and our customers.

Priorities for the year ahead

Our main focus is to drive a step change in core business performance. We have detailed plans in place to improve safety, our delivery for customers and our efficiency. We are continuing work in a number of priority areas:

- **Market developments:** prepare for the potential challenge of increased competition in the transmission market, making sure we can deliver for our customers in both competitive and monopoly markets. We will continue to work with Ofgem on the legal separation of ESO, ensuring there is no disruption to the vital role of the SO.
- **Programme delivery**: increase the amount of work we can deliver, and reduce our costs through improving processes.
- **Customers and stakeholders:** An overview of the key risks is provided on page 19, together with examples of the relevant controls and mitigating actions we are taking.
- **Delivering energy:** We will continue to support the evolution of market frameworks in the UK and Europe to enable new types of generation and demand to come forward in response as the energy landscape changes.

Our purpose, vision, strategy and values

To make sure we are well positioned to respond to changes in the operating environment, we have evolved our purpose, vision, strategy and values.

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

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

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

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

Our vision also looks to the future, reminding us of the critical role we will play for future generations. We are already seeing 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 have three strategic priorities for our business that will help us achieve our vision.

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.

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

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're aligned to our purpose and help our people understand how we expect to achieve our purpose and vision for our customers and each other.

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

'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 first set our current strategy in our 2012/13 Annual Report and have continued to report on our progress against it since then. As we describe on pages 6 and 7, there is an extraordinary amount of change facing our industry, so we have evolved our purpose, vision, strategy and values (see page 8).

We aim to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors. We measure our progress in creating value for our investors.

Strategic objective	Description	How we deliver	Relevant KPIs
Deliver operational excellence	Achieve world-class levels of safety, reliability, security and customer service.	Our customers, communities and other stakeholders demand safe, secure and reliable supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders.	Employee lost time injury frequency rate Customer satisfaction Network reliability Return on equity (ROE)
Engage our people	Create an inclusive, high-performance culture by developing all our employees.	It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success.	Employee engagement index Workforce diversity
Stimulate innovation	Promote new ideas to work more efficiently and effectively.	Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do.	See principal operations section
Engage externally	Work with external stakeholders to shape UK and EU energy policy.	Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our customers and stakeholders.	Community engagement and investment in education
Embed sustainability	Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.	Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation.	Climate change Greenhouse gas emissions
Drive growth	Grow our core businesses and develop future new business options.	We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders.	Regulated asset base growth

Progress against objectives - key performance indicators

The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure National Grid Electricity Transmission performance.

Strategic element	Regulatory output[1]	Key performance indicators (KPIs) and definition	Our performance
Deliver operational excellence	**Safety**	**Employee lost time injury frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis. Our ambition is to achieve a world-class safety performance of below 0.1.	**2016/17: 0.11 (target: 0.1)** 2015/16: 0.09 (target: 0.1)
	Customer satisfaction	**Customer satisfaction** Our score in customer satisfaction surveys. We measure customer satisfaction using RIIO related metrics agreed with Ofgem.	**2016/17: 7.4** (target: 6.9[2]) **2015/16:** 7.5 (target: 6.9[2])
	Reliability	**Network reliability** Reliability of Electricity Transmission network as a percentage against the target set by Ofgem.	**2016/17: 99.999964% (target: 99.9999%)** 2015/16: 99.999998% (target: 99.9999%)
	Return on equity	**Return on equity (RoE)** RoE against the allowed return set by the regulator for the current price control.	**2016/17: 13.6%** 2015/16: 13.9%
Engage our people	**Employee engagement**	**Employee engagement index[3]** 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.	**2016/17: 77%** 2015/16: 73%
	Workforce diversity	**Workforce diversity** We measure the percentage of women and ethnic minorities in our workforce. While we have no specific target we aim to develop and operate a business that has an inclusive and diverse culture.	**Workforce diversity %** **2016/17: Women 19.6%** **Ethnic minority 13.0%** 2015/16: Women 14.8% Ethnic minority 11.6%
Engage externally	**Community engagement and investment in education**	**Community engagement and investment in education[4]** Working with our communities is important in creating shared value for us as a business and the people we serve.	**2016/17: £5.8 million** 2015/16: £4.2 million
Embed sustainability	**Environmental impact**	**Greenhouse gas emissions** Percentage reduction in greenhouse gas emissions. National Grid Target 2016/17 and 2015/16: 45% reduction by 2020, 80% reduction by 2050.	Tonnes carbon dioxide **2016/17: 277,966** 2015/16: 253,592
Drive growth		**Regulated asset growth** Maintaining efficient growth in the total Regulated Asset Value (RAV) base.	**2016/17: 4%** 2015/16: 6%

[1] See pages 3 to 5 for explanation of regulatory outputs.
[2] Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
[3] Index represents performance for National Grid plc.
[4] Index represents performance for National Grid UK.

Greenhouse gas emissions

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

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

Strategic Report

Operating environment

Our operating environment is shaped by the regulatory choices governments make to respond to the changing needs of energy consumers. In meeting these demands, regulators seek to balance often conflicting objectives. In the last year we have seen a shift in focus to affordability and moving to a low carbon economy.

	Affordability	Security of supply	Sustainability
Commentary	The cost of the energy is an issue for consumers, industry, energy providers, regulators and governments. Consumers expect a reliable energy system that delivers electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the network costs part of their energy bills. The costs are subject to regulatory approval.	The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear and renewables as well as emerging battery storage. During the transition, electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.	Our world is changing as a result of human activity and its impact on the environment. In December 2015, the Paris Agreement entered into force. The Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – delivering value for people, the environment and business. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems.
Developments	The Government set out proposals for an industrial strategy that confirms the high priority placed on affordability of energy. Ofgem proposed a number of adjustments to allowances for Electricity Transmission following its mid-period review of the RIIO-T1 price control. As new technologies, such as solar, are adopted, there are fears that low-income customers may not have access to cheaper, cleaner sources of energy.	Energy security remains a priority for the Government, and a number of balancing tools are available to manage capacity. BEIS introduced amendments to the UK capacity market to improve long-term planning of capacity and reduce costs to consumers. The Government has also committed to proceed with the Hinkley Point C nuclear power station.	The Paris Agreement requires signatories to commit to reducing global greenhouse gas emissions with the aim of limiting increases in global average temperature. Investment in solar generation has continued in the UK. For the first time, in 2016 the UK saw periods where no coal-fired power stations generated electricity and periods where parts of the network were operated successfully with no fossil fuel generation. Investing in the low-carbon economy is a priority for the Government. The BEIS green paper on industrial strategy included a focus on developing education and skills for energy innovation.

	Affordability	Security of supply	Sustainability
Our response	Our regulated business continues to strive for greater efficiency to help offset the impact of costs for energy and capital investment programmes. We continue to find innovative ways to reduce both the time and cost to repair or replace assets, minimising the costs to consumers. We were able to return over £460 million of savings for consumers in the first four years of the RIIO arrangements. We are expecting around £200 million of cost savings for consumers resulting from awarding Enhanced Frequency Response contracts for more than 200 MW of battery storage in July 2016.	We continue to support BEIS and Ofgem on capacity market policy development and applicant readiness. We also continue to work with our delivery partners to achieve operational milestones. National Grid was asked to play an important role in Electricity Market Reform (EMR) and act as the Delivery Body administering new market arrangements – the Capacity Mechanism and Contracts for Difference (CFD) – which provide incentives for the investment required in our energy infrastructure.	Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 10). We continue to work with BEIS and Ofgem on the development of future energy systems as we respond to the shift to low-carbon energy in the UK.

Our business model

Our business

Our transmission business operates as a regulated monopoly. We have one regulator, Ofgem, which regulates our electricity business. Ofgem safeguard customers' interests by setting the level of charges we are allowed to pass on and the standards of performance we must achieve.

The foundation of our business model

Our people and our culture

Our business is built by our people. We work hard to make sure that we keep them as safe as possible. We have more than 3,500 people working in National Grid Electricity Transmission.

Being a responsible business

Doing the right thing is a responsibility we take seriously. Being a responsible and sustainable business is fundamental to the way we work and how we manage our impact on the communities in which we operate.

Our relationships with stakeholders and regulators

We engage widely in debate that helps guide future energy policy direction. We work with Ofgem to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

Our customer focus

Our customers' wants and needs are evolving with a greater desire to manage their energy use and expectations of how we interact with them. To remain relevant to our customers, we must understand and respond to their changing values and deliver outstanding experiences, products and services.

Innovation

Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our network.

Our financial capital and fixed asset base

The way in which our investment is funded is an important part of our business. National Grid plc has long-term sustainable assets and strong credit ratings, meaning we are able to secure efficient funding from a variety of sources.

How we generate value

We are a long-term asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

Revenue

The vast majority of our revenues are set in accordance with our regulatory agreements, and are calculated based on a number of factors, including:

- return on equity and cost of debt;
- depreciation of regulated assets; and
- performance against incentives.

See pages 3 to 5 for more information about our regulatory agreements in the UK.

Cash flow

Our ability to convert revenue to profit and cash is important. By managing our operations efficiently, safely and for the long term, we are able to generate strong sustainable cash flows to finance returns through dividends but also to provide funds for growth.

Investment

We invest efficiently in our networks to deliver strong and sustainable growth in our regulated asset base over the long term.

We continually assess, monitor and challenge investment decisions in order to allow us to continue to deliver a safe, reliable, and cost-effective network.

Our business creates value for our stakeholders in both financial and non-financial terms. Our KPIs benchmark our performance of each of these key areas as shown on the following page.

KPIs benchmark

Stakeholder	How we generate value	Our measures of success
Stakeholders and communities	Operating as safely, reliably and sustainably as possible;	Operating excellence/safety
	Focusing on affordability to reduce the impact on customer bills;	Network reliability
	Delivering essential services, while managing loss of supply and customer service issues in a timely way; and	Greenhouse gas emissions
	Aiming to improve customer satisfaction at all times.	Customer satisfaction
People	Paying them a market competitive wage, and an overall pay package that rewards competency and performance; and	Employee engagement index
	Providing an inclusive culture and encouraging development and employee enablement.	Workforce diversity
Shareholder	Making sure our regulatory frameworks maintain an acceptable balance between risk and return;	Return on Equity
	Operating within our regulatory frameworks as efficiently and compliantly as possible;	Regulated asset base growth
	Performing well against our regulatory incentives, so we can make the most of our allowed returns;	
	Careful cash flow management and securing low-cost funding; and	
	Disciplined investment in our networks and protecting our reputation.	

Our people

National Grid Electricity Transmission plc is a subsidiary of the National Grid plc Group, and its policies and activities contribute to the larger National Grid position. The below represents activities which National Grid Electricity Transmission plc has contributed to as part of National Grid's achievements in 2016/17.

Building skills and expertise to drive performance

Our sector is undergoing a period of massive transformation and uncertainty, so we are taking steps to help make sure our workforce capacity and capability remains flexible enough to deliver our strategic objectives. For example, we are using a new strategic workforce planning programme. This helps us determine where we could have future shortfalls in our workforce requirements across a range of possible scenarios over the next 10 years. It also helps us plan investment for recruitment and training, so we can make sure we always have the right skills in the right place at the right time.

During 2016/17 we have taken steps to improve our people's capability, primarily across four main areas: leadership, contract management, stakeholder management and performance excellence. We are also setting the standards that we need to achieve in other capability areas, including data management, customer focus and commerciality.

Our Accelerated Development Programme is designed to enhance our leadership succession planning by developing the skills of employees seen as having potential to grow into our senior roles. During 2016/17, 117 participants started the 18-month programme.

Safeguarding the future

We remain committed to helping address the significant skills challenge facing the engineering profession in the UK.

The 2015 Employer Skills Survey highlighted that 36% of hard-to-fill vacancies in the UK energy and utilities sector were due to a lack of proficient skills – well above the 23% national average and notably higher than any other sector.

To help address this, we are involved in a number of initiatives. For example, our Chief Executive and specialists from our Academy are members of both the Council and Delivery Board of the Energy Utility Skills partnership and have supported the creation of the Energy and Utilities' Workforce Renewal Skills Strategy 2020. This has involved collaborating with the wider sector to address priorities such as recruitment, investment in skills and targeting skills gaps.

Our Academy offers residential work experience programmes for 100 young people annually, balanced 50/50 between boys and girls. We participate in the annual Big Bang Fair, which is designed to promote interest in Science, technology, engineering and math (STEM) subjects and careers.

During 2016/17, 316 people have participated in our apprentice, engineering, student and graduate development programmes. In November 2016, our apprentice programme was ranked 'Outstanding' by Ofsted for the third time consecutively.

Promoting an inclusive and diverse workforce

Our inclusion and diversity activities include attraction and recruitment, development, leadership, role modelling and cultural change.

We aim to attract a diverse range of applicants, including under-represented groups. Our Women in National Grid Yearbook, which showcases a number of our UK female role models, is available to potential applicants so they can envisage a career with us.

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

We have reviewed some of our leadership development programmes to place a stronger emphasis on inclusion and diversity. For example we have further developed our unconscious bias training.

We believe leadership involvement is an important factor in building an inclusive culture. Many leaders are sponsors of our employee resource groups or mentees in our reverse mentoring programme. These activities provide our leaders with a greater understanding of the challenges facing our diverse workforce, and more confidence in discussing diversity in the organisation. Senior role models are being encouraged to show how they are bringing an inclusive culture to life.

Our Employee Resource Groups build awareness and understanding of inclusion and diversity throughout the organisation. They also provide valuable feedback and suggestions for improvements. For example, 'One', our ethnic minority group, organised Black History Month events to raise the profile of ethnic diversity.

Our EmployAbility scheme, which provides supported work experience for young people with learning disabilities, is recognised as best practice by the Business Disability Forum.

Following the Gender Pay Gap Information Regulations, approved by Parliament in February 2017, we will be disclosing additional pay gap information during 2017 according to the approach outlined in the regulations.

The table below shows the breakdown in numbers of employees by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

	Financial year ending 31 March 2017				
	Male	Female	Total	% Male	% Female
Our Board	5	3	8	63	37
Senior Management	29	9	38	76	24
Whole Company	2,968	724	3,692	80	20

Health and well-being

During 2016/17 we have continued to promote the importance of well-being across our business. We have a leading role in the Business in the Community Workwell campaign, which promotes mental well-being in the workplace. More than 900 people, including around 30 of our senior leaders, have attended our mental health first aid course to date. We also ran a diabetes awareness campaign in which employees could assess risk and learn more about diet and activity.

Building strong communities

We believe a strong community is good for the people who live there, good for our business and good for the wider economy. To further support the communities in which we work and live, we partner with charity organisations and provide communities with one-off grants to support their social, economic and environmental development. We also empower our employees to pursue projects and their chosen causes through volunteering in their neighbourhoods.

We support local schools and colleges with work experience opportunities and careers advice sessions. Our engineers help to bring STEM subjects to life. Last year, our community engagement and investment in education was valued at £5,850,965, with our UK employees giving over 18,400 hours of volunteering support.

Human rights

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

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 part of this role, the Board sets and monitors the amount of risk the Company is prepared to seek or accept in pursuing our strategic objectives (our risk appetite). The Board assesses the Company's principal risks and monitors the risk management process through risk review and challenge sessions twice a year.

Risk management process

Overall risk strategy, policy and process are set at the Group level 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 purpose, vision, strategy and value, as described on pages 9 to 11.

Risk management activities occur through all levels of National Grid plc, including National Grid Electricity Transmission. Through a 'top down, bottom up' approach, all business functions identify the main risks to our business model and to achieving their business objectives. They assess each risk by considering the financial and reputational impacts, and how likely the risk is to materialise. They identify and implement actions to manage and monitor those risks and assess the adequacy of our existing risk controls. The identified risks and actions are collated in risk registers and reported at functional and regional levels of both the Company and the National Grid plc Group.

An important feature of our risk management process is our three lines of defence model. Each business function owns and is responsible for managing its own particular risks (the first line of defence). A central risk management team (the second line of defence) acts as an advisory function on implementing the risk process and also provides independent challenge of the principal risk assessments and actions taken to mitigate and manage those risks. This team partners with the business functions through nominated risk liaison staff members and collaborates with assurance teams and specialists, such as the safety and compliance management teams to evaluate gaps in controls, identify performance trends and provide recommendations for improvements. The National Grid plc 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).

Regional senior management regularly reviews and debates the outputs of the bottom-up risk management process. This helps ensure the business is aligned to the Company's strategic objectives and that the prioritisation of the principal risks is discussed regularly. The most significant risks for the business are highlighted in the risk profiles and reported to the CEO of National Grid plc.

We develop our main strategic uncertainties or 'principal risks' for the Company through input from National Grid plc's Board and the UK Executive Committee and they are determined by the National Grid Electricity Transmission Board. Our risk profile is reported and debated with the UK Executive Committee and National Grid Electricity Transmission Board every six months. Workshops are held with business leadership teams so we can make sure the principal risks remain closely aligned to our strategic aims and that no significant risks (or combination of risks) are overlooked.

The National Grid Electricity Transmission Board and leadership teams also discuss the results of testing our principal risks. The aim of this testing is to establish the impact of the principal risks on the Company's ability to continue operating and meet its liabilities over the assessment period. We test the impact of these risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. This work informs the viability statement (see page 22).

The outcomes from each level of the risk review process are fed back to the relevant teams and incorporated as appropriate into the next cycle of our ongoing risk process.

The National Grid Electricity Transmission Audit Committee reviews and reports to the Board on the adequacy and effectiveness of the procedures for the identification, assessment and reporting of business risks, as well as wider internal control, risk management and; ethics and compliance matters. As part of its review, the Audit Committee also considers the annual corporate audit plan and any findings raised by the corporate audit function.

Our principal risks

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

Our corporate risk profile contains the principal risks that the National Grid Electricity Transmission Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives. Following the referendum vote for the UK to leave the EU and the consequential uncertainties in the political and economic environment, the Financial Reporting Council (FRC) has highlighted certain specific matters for Boards to consider. In relation to principal risks, the FRC states that boards must consider the nature and extent of risks and uncertainties arising from the result of the referendum and the impact on the future performance and position of the business. Consequently, risk owners have considered Brexit in their assessments of the principal risks. These assessments continue as we gain more clarity on the likely impact of Brexit on our business. Our principal risks are shown in the table below.

Risk area	Risk description	Example of mitigations
Growth	Failure to identify and execute the right opportunities to deliver our growth strategy. Failure to grow our core business and have viable options for new business over the longer term would adversely affect the Company's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	Processes and resources are in place to review, undertake due diligence and progress new investment opportunities, dispose of existing businesses and identify and execute on opportunities that provide organic growth. These processes, along with twice-yearly National Grid plc Board strategy offsite discussions, are reviewed regularly to ensure they remain supportive of our short- and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, and the performance of our portfolio. While good progress has been made this past year, we must remain focused on increasing development opportunities in our core business and emerging opportunities. Mitigating actions focus on building our business development pipeline and our capability to pursue non-organic growth options.
Energy policy	Failure to secure satisfactory regulatory outcomes and to influence future energy policy. Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	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. As part of our new business strategy, we have renewed our stakeholder engagement strategy to improve focus on business objectives. The new strategy incorporates senior executive ownership of each priority, and the development of key positions and engagement plans by cross-functional teams.

Risk area	Risk description	Example of mitigations
Emerging technology	Failure to effectively respond to the threats and opportunities presented by emerging technologies, particularly adapting our network to meet the challenge of increasing distributed energy sources. Technology developments in areas such as solar energy, energy storage, electric vehicles and distributed generation have developed at a faster pace than many anticipated. We face the challenge of adapting our networks to meet new demands as well as ensuring we act on the opportunities that will benefit our customers and stakeholders.	We created a technology team within our Strategy function to develop relationships with emerging and technology-centric organisations, to monitor disruptive technology and business model trends and to act as a bridge for emerging technology into the core regulated businesses and business development teams.
Safety	Catastrophic asset failure resulting in a significant safety event. Safety is a fundamental priority. Some of the assets owned and operated by National Grid Electricity Transmission are inherently hazardous and process safety incidents, while extremely unlikely, can occur. Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with regional legislation and regulation. In addition, we identify and adopt good practices for safety management.	We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. Our Company-wide process safety management system is in place to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. 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. Periodically, independent surveys of key assets are undertaken, which provide risk engineering knowledge and best practices to the Company with the aim of further reducing our exposure to hazard risks.
Data management	Failure to operate with a sufficiently mature business data management capability. The need for accurate, timely, and meaningful data lies throughout the organisation and is critical to our core processes and our ability to grow the business. We must rely upon the performance of our systems and data to demonstrate the value of our business to our stakeholders, meet our obligations under our regulatory agreements and comply with agreements with providers of finance.	We have developed data management principles and minimum standards with supporting guidelines. These documents provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant. These standards have been launched in the business and will form part of the Business Management System that will be developed in the coming year. In support of this, we are also developing a capability framework, to make sure our people have the appropriate skills and expertise in data management. The businesses will continue to develop their own implementation plans against these new standards and capabilities. The aim of these plans will be to ensure we can demonstrate we are compliant with the minimum standards and have the core capabilities in place for all of our business critical data. To support these efforts, we are establishing a regional centre of excellence for data management. Their role will be to provide expertise to the businesses and to help provide assurance around the effectiveness of the data management standards.

Risk area	Risk description	Example of mitigations
Cyber breach	We experience a major cyber security breach of business and Critical National Infrastructure (CNI) systems. Due to the nature of our business we recognise that our CNI systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber-threat could adversely affect the Company's business resilience. We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with BEIS and the Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy. We also collaborate with a number of regulatory agencies focused on protection of CNI.
Leadership capacity	Failure to build skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy. It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	Strategic workforce planning allows us to effectively inform our strategic resourcing plans. Our entry level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required. Improvements to our talent processes mean we continue to improve in identifying talent and in accelerating development of future leaders (e.g. our Accelerated Development Programme). The rigour of our succession planning and development planning process has been improved, particularly at senior levels and is now being applied deeper into the organisation. In all strategies and programmes we continue to promote inclusion and diversity. To help understand our workforce, we formally solicit employee opinions via a Company-wide employee survey that is conducted annually.

Our internal control process

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

Monitoring internal control is conducted through established boards and committees at different levels of the National Grid plc organisation. 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

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

The latest review covered the financial year to 31 March 2017 and the period to the approval of this Annual Report and Accounts.

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

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

The Certificate of Assurance (CoA) from the Chief Executive 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 twice-yearly in support of the financial end of year review and half-year review. The CoA’s from the company’s senior managers provide upwards assurance on the risk management and internal controls systems for the areas of responsibility. An extract of the final certificate (signed following the National Grid Group Board in May 2017) is attached as an appendix to the Group CoA paper and set out the items relevant to the company.

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

The National Grid Electricity Transmission Board evaluated the effectiveness of management’s processes for monitoring and reviewing internal control and risk management. It noted no material weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Our internal control and risk management processes comply with the requirements of the UK Corporate Governance Code.

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 CEO and CFO. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our group wide business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. Our business strategy aims to make sure that 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 sufficient detail of the NGET operating segment.

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

The business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. The business plan models upside and downside scenarios derived from the risks and opportunities identified, and determines the impact these would have on our results and financial position over the five year period. We have set out the details of the principal risks facing our Company on pages 18 to 20, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a roust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

Our business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we may need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Our business plan also models various KPIs used by lenders in assessing a company's credit worthiness. These models indicate that we should continue to have access to capital markets at commercially acceptable interest rates throughout the five year period.

No principal risk or cluster of principal risks was found to impact upon the viability of the Company. Preventative and mitigating controls in place to minimise the likelihood of occurrence and/or financial and reputation impact are embedded within our robust assurance system.

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

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 35, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to June 2022.

The Strategic Report was approved by the Board of Directors on 30 June 2017 and signed on its behalf by:

Alan Foster
Director

Financial review

We have delivered another year of strong financial performance. Revenue increased by £460 million to £4,439 million and operating profit increased by £185 million to £1,346 million.

Use of adjusted profit measures

In considering the financial performance of our business and segments, we analyse each of our primary financial measures of operating profit and profit before tax into two components.

The first of these components is referred to as an adjusted profit measure. This is the principal measure used by management to assess the performance of the underlying business. Adjusted results exclude exceptional items and remeasurements. These items are reported as the second component of the financial measures. Note 3 to the consolidated 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 in communicating financial performance to its investors in external presentations and announcements of financial results.

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were no exceptional items included within operating profit for the year ended 31 March 2017 or 31 March 2016.

	Years ended 31 March	
	2017	2016
	£m	£m
Operating profit and adjusted operating profit	**1,346**	1,161

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2017	2016
	£m	£m
Adjusted operating profit	**1,346**	1,161
Adjusted net finance costs	**(160)**	(127)
Adjusted profit before tax	**1,186**	1,034
Adjusted taxation	**(243)**	(213)
Adjusted earnings	**943**	821
Exceptional items after tax	**(329)**	94
Remeasurements after tax	**(15)**	(9)
Earnings	**599**	906

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below.

	Years ended 31 March	
	2017	2016
	£m	£m
Adjusted operating profit excluding timing differences	**1,210**	1,156
Timing differences[1]	**136**	5
Adjusted operating profit	**1,346**	1,161
Exceptional items	**-**	-
Total operating profit	**1,346**	1,161

1 In year over-recovery of £136 million compared with an over-recovery in the prior year of £5 million. The estimated closing under-recovered value at 31 March 2017 is £31 million.

Consolidated income statement commentary

	Years ended 31 March	
	2017	2016
	£m	£m
Revenue	**4,439**	3,979
Operating costs	**(3,093)**	(2,818)
Operating profit	**1,346**	1,161
Finance income	**2**	1
Finance costs:		
Before exceptional items and remeasurements	**(162)**	(128)
Exceptional items and remeasurements	**(500)**	(12)
Profit before tax	**686**	1022
Taxation:		
Before exceptional items and remeasurements	**(243)**	(213)
Exceptional items and remeasurements	**156**	97
Profit after tax	**599**	906

Revenue

Revenue for the year ended 31 March 2017 increased by £460 million to £4,439 million. This increase principally reflected the recovery of higher pass through costs such as system balancing costs, increased regulatory revenue allowances and the impact of higher volumes.

Operating costs

Operating costs for the year ended 31 March 2017 of £3,093 million were £275 million higher than the prior year. This increase in costs was due to increased balancing services costs and higher depreciation and amortisation as a result of newly commissioned assets.

Net finance costs

For the year ended 31 March 2017, net finance costs before exceptional items and remeasurements increased by £33 million to £160 million. This was mainly due to increased interest costs on bank loans.

Finance cost exceptional items and remeasurements for the year ended 31 March 2017 have increased by £488 million, resulting in a loss of £500 million. This is primarily the result of one-off exceptional debt redemption costs incurred in the year to 31 March 2017 of £481 million as a result of the Company completing a public bond tender as part of a restructure of the National Grid plc financing portfolios.

Taxation

The tax charge on profits before exceptional items and remeasurements was £30 million higher than the prior year as a result of higher profits in the period.

Exceptional tax for the year ended 31 March 2017 included an exceptional deferred tax credit of £56 million arising from a reduction in the UK corporation tax rate from 20% to 19% applicable from 1 April 2018 and a further reduction to 17% from 1 April 2020.

Consolidated statement of financial position commentary

	Year ended 31 March	
	2017	2016
	£m	£m
Non-current assets	**13,025**	12,390
Current assets	**837**	789
Total assets	**13,862**	13,179
Current liabilities	**(2,646)**	(2,234)
Non-current liabilities	**(8,155)**	(8,171)
Total liabilities	**(10,801)**	(10,405)
Net assets	**3,061**	2,774

Property, plant and equipment

Property, plant and equipment increased by £544 million to £12,280 million as at 31 March 2017. This was principally due to capital expenditure of £932 million relating to the renewal and extension of our regulated networks, offset by £391 million of depreciation in the year.

Trade and other receivables

Trade and other receivables have increased by £134 million to £393 million at 31 March 2017. This was predominantly driven by the recognition of Balancing Services Incentive Scheme (BSIS) Black Start income accruals of £63 million following the announcement by Ofgem that National Grid can include approximately half of the additional costs of procuring Black Start capability in the target costs for the BSIS.

Trade and other payables

Trade and other payables have decreased by £41 million to £887 million mainly due to a decrease in trade payables and amounts owing to fellow subsidiaries of National Grid, partially offset by an increase in capital contributions.

Deferred tax liabilities

The net deferred tax liability decreased by £31 million to £778 million. This was primarily due to deferred tax credit on actuarial losses, partially offset by a charge on financial instruments.

Derivatives financial liabilities

The £21 million decrease in derivative liabilities is mainly due to cross currency interest rate swaps movements. These were partially offset by a small increase in the value of inflation linked swaps.

Provisions

Total provisions decreased by £12 million, driven predominantly by movements in the environmental provision. As a result of an update to the estimates used in the environmental provision, £21 million was released to the income statement during the year. This was partly offset by a £10 million increase in the environmental provision due to a reduction in the real discount rate from 2% to 1%.

Other non-current liabilities
Other non-current liabilities increased by £78 million principally due to further customer funded work.

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

Net scheme liability	**£m**
As at 1 April 2016	(270)
Current service cost	(27)
Net interest cost	(7)
Curtailments and settlements – other	(1)
Actuarial gains/(losses)	
on plan assets	328
on plan liabilities	(606)
Employer contributions	76
As at 31 March 2017	(507)

The principal movements in net obligations during the year include net actuarial loss of £278 million and employer contributions of £76 million. The overall movement in the deficit was an increase of £237 million.

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

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

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

	2017 £m	2016 £m
Cash generated from operations	**1,659**	1,474
Net capital expenditure	**(960)**	(942)
Business net cash flow	**699**	532
Net interest paid	**(604)**	(167)
Tax paid	**(100)**	(132)
Dividends paid	**(150)**	(310)
Other	**(52)**	(18)
Increase in net debt	**(207)**	(95)
Opening net debt	**(7,019)**	(6,924)
Closing net debt	**(7,226)**	(7,019)

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 2017 cash flow from operations increased by £185 million to £1,659 million. Adjusted operating profit before depreciation and amortisation was £214 million higher year on year. Working capital changes decreased by £19 million from the prior year to £67 million alongside a reduced loss on disposal of property, plant and equipment of £9 million.

Net capital expenditure
Net capital expenditure in the year of £960 million was £18 million higher than the prior year.

Net interest paid
The increase in net interest paid is mainly due to buyback costs incurred to repurchase existing debt.

Net debt
The increase in net debt is primarily due to £900 million of bank loan issuances and an increase in intercompany loans of £342 million. This is offset by £200 million of bond maturities and a further partial redemption of external bonds, as part of the buyback programme, of £800 million. See note 20 to the accounts for further analysis of net debt.

Dividends paid
Dividends paid in the year ended 31 March 2017 amounted to £150 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 over-recovery of £136 million (2015/16: £5 million over-recovery). Our closing balance at 31 March 2017 was £31 million under-recovery (2015/16: under-recovery of £171 million). All other things being equal, the majority of that balance would normally be recoverable from customers next year.

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.

For our business as a whole, regulated revenue adjustments totalled to an under-recovery of £31 million in the year. This is based on our estimates of work carried out in line with allowances, in expectation of future allowances, or work avoided altogether, either as a result of National Grid finding innovative solutions or the need being permanently removed.

Return on Equity 340bps above base levels
Return on Equity for the year, normalised for a long-run inflation rate of 3%, was 13.6% 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	**2017 %**	2016 %
Base return (including avg. 3% long-run inflation)	**10.2**	10.2
Totex incentive mechanism	**1.9**	2.1
Other revenue incentives	**0.7**	0.8
Return including in year incentive performance	**12.8**	13.1
Pre-determined additional allowances	**0.8**	0.8
Return on Equity	**13.6**	13.9

Return on Equity decreased 30bps year-on-year, mainly due to lower totex allowances. Totex was £1.2 billion compared with an estimated allowance, adjusted for outputs and phasing of spend, of £1.4 billion. Our share of this efficiency saving is expected to be £87 million. Much of this saving is reflected in an estimate of increased performance RAV.

The consistent 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. National Grid aims to deliver the essential maintenance and outputs required by the RIIO framework sustainably and at the lowest total cash cost in order to deliver best value for consumers and shareholders. Innovative solutions such as predictive analysis and new engineering approaches are essential to achieving this and continued to be a focus for the business over the course of 2016/17.

The business delivered a consistent level of performance under other revenue incentive schemes during 2016/17, generating around 70bps of total return, equivalent to £41 million of additional revenue. The current BSIS contributed £28 million of pre-tax profit which included £15 million of performance related to prior periods. Stakeholder satisfaction and renewable wind forecasting also delivered improved performance, offset by reductions in the customer satisfaction and SF6 incentives. Electricity Transmission is working to identify opportunities for future outperformance across these areas.

Regulated Financial Position up 2.7%

In the year, Regulated Asset Value (RAV) grew by 5.0% driven by continued investment and the impact of inflation, which at 3.1% was in line with our long run assumption. Net other regulatory liabilities increased by £288 million, partly reflecting revenue received in the year associated with timing over recoveries, customers' share of efficiency benefits and also relating to RIIO outputs where delivery has either been deferred to later in the price control period or where outputs are no longer expected to be required by customers during RIIO.

	2017	2016
Opening Regulated Asset Value (RAV)*	**11,871**	11,285
Asset additions (aka slow money) (actual)	**944**	1,042
Performance RAV or assets created	**74**	80
Inflation adjustment (actual RPI)	**375**	181
Depreciation and amortisation	**(800)**	(758)
Closing RAV	**12,464**	11,830
Opening balance of other regulated assets and (liabilities)*	**(129)**	49
Movement	**(288)**	(147)
Closing balance	**(417)**	(98)
Closing Regulated Financial Position	**12,047**	11,732

*April 2016 opening balances adjusted to correspond with 2015/16 regulatory filings and calculations

Corporate Governance

Corporate Governance Statement

National Grid Electricity Transmission aims to achieve high standards of leadership and governance. At the National Grid level, its Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2014 (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 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 18. The day-to-day operational and financial management of the Company's businesses is undertaken by committees. The committees are operated, in compliance with business separation obligations set out in its license.

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

Board composition

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

Last year we reported on the change in Board composition resulting from internal changes in executive director roles. During this year the Board has consolidated its composition under the leadership of the new Executive Director, UK, Nicola Shaw CBE, who became Chairman of the Board in July 2016. Nicola also sits 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 Clive Elphick and Dr Catherine Bell have remained in these roles providing continuity, and an independent voice in the boardroom, during a period of internal change. Their input and involvement in developing the governance framework is demonstrated through their 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 throughout the year, enabling them to strengthen their knowledge and understanding of the business and current operational matters. These visits also provide the opportunity to create further links between the business and the Board room.

Executive Directors

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

During the year the Board's executive director composition changed following the retirement of Mark Ripley, Director UK Regulation. Chris Bennett was appointed to this role and accordingly appointed to the Board in June 2016.

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.

As part of the induction process, internal personnel are requested to attend the Board meeting immediately prior to their appointment, to facilitate familiarisation with the Board members and governance framework and procedures.

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

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

How our Board operates

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

In its steering role, providing leadership to the business, the Board receive papers requesting their input and decision on matters, aligned to the matters reserved to it. The Board regularly reviews the annual business schedule, and amends this to take account of changes in the external and internal environment, enabling it to provide effective, time appropriate leadership and oversight of matters affecting the business.

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

Board performance evaluation

Following the externally facilitated board evaluation in June 2015 progress against the actions has continued, developing and enhancing the performance of the Board. The developments and enhancements are demonstrated throughout this corporate governance report, as we report on the various areas of increased rigour around the Company's corporate governance procedures and practices.

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 2017.

		Attendance
Nicola Shaw CBE (Chair) [1]	Executive Director UK	4 of 4
Chris Murray (Chair) [2]	Chair of the Board	2 of 2
Andy Agg	Group Tax & Treasury Director	3 of 6
Alan Foster	UK CFO	5 of 6
David Wright	Director Electricity Transmission Owner	5 of 6
Cordi O'Hara	Director of UK System Operator	4 of 6
Chris Bennett [3]	Director UK Regulation	5 of 5
Mark Ripley [4]	Director UK Regulation	1 of 1
Catherine Bell	Sufficiently Independent Director	6 of 6
Clive Elphick	Sufficiently Independent Director	6 of 6

1 Appointed 27 July 2016
2 Resigned 27 July 2016
3 Appointed 25 June 2016
4 Resigned 24 June 2016

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

Board remuneration

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

During the year, as part of the Company wide compensation review, the Board reviewed and approved an increase in the non-executive fee paid to the SIDs. The increase in fee reflected the increased ongoing requirements of the Board, their individual appointments as Chairmen of the Audit Committee and Business Separation Compliance Committee and considered a benchmarking review of fees paid to external independent directors. Due to the lack of comparator information available for the specific role of a SID, the roles of senior independent directors were used in the benchmarking exercise.

Committees

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

- Electricity Transmission Executive Committee,
- System Operator Executive Committee.
- Business Separation Compliance Committee
- Finance Committee
- Pension 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. During 2016 the ETO business re-structured its senior management team and ETEC meetings now include the full ETO senior management as well as standing invites for all ETO support functions for transparency and visibility across the business. Prior to these changes six ETEC meetings were held. Following the re-structure four meetings have been held. Attendance of the voting members is set out below and is expressed as the number of meetings attended out of the number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2017.

Meetings held pre re-structure of the senior management team

		Attendance
David Wright	Chair ETO Business Entity	5 of 6
Ian Cartwright	Director of Capital Delivery	6 of 6
Jon Fenn	Programme Director - Efficiency Focus area	5 of 6
Michelle Clark	Head of ETO Process	5 of 6
Jenny Dillon	Lead Finance Business Partner	6 of 6
Stephen Johnson	AMPD Programme Manager	5 of 6
Daniel Westerman	Head of Operational Support	4 of 4
Nicky Damerell	Head of Business Capability & Assurance	4 of 4

Meetings held post re-structure of the senior management team

		Attendance
David Wright	Director Electricity Transmission Owner	4 of 4
Jenny Dillon	Lead Finance Business Partner	4 of 4
Jon Fenn	Programme Director - Efficiency Focus area	4 of 4
Daniel Westerman	Head of Network Management	4 of 4
Nicky Damerell	Head of Process & Enablement	4 of 4
Hedd Roberts	Head of Customer & Commercial	4 of 4
Matt Staley	Head of Operations	4 of 4
Stephen Johnson	Head of ETO Transformation	0 of 4

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

System Operator Executive Committee

The System Operator Executive Committee (SOEC) acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the strategic direction of Great Britain SO activities (Gas and Electricity combined) and RIIO incentive and output performance measures. The SOEC was set up following the implementation of the new UK Operating Model in 2013. Membership of this Committee comprises Directors of the Company, senior managers of the Transmission business and certain other senior managers. Attendance of the voting members is set out below and is expressed as the number of meetings attended out of the number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2017. There were five Committee meetings held during the year.

		Attendance
Cordi O'Hara	Director, UK System Operator	4 of 5
Phil Shepard	Director, System Operations	3 of 5
Simon Johnston	Head of Business Change	5 of 5
Darren Pettifer	SO Business Partner, Finance	5 of 5
Mark Ripley [1]	Director, UK Regulation	2 of 2
Chris Bennett [2]	Director, UK Regulation	3 of 3

1 Resigned June 2016
2 Appointed June 2016

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

Business Separation Compliance Committee

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

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee and the Director of System Operations (Single Appointed Director in respect of Relevant System Planning Activities and Single Responsible Director in respect of Electricity Market Reform). The Committee is chaired by Dr Catherine Bell, SID, providing independent leadership of the Committee. The Business Separation Compliance Officer/ Compliance Officer are in attendance and present reports on their duties, activities and compliance with the licence obligations.

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

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

Finance Committee

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

Membership of the Committee comprises the Finance Director of National Grid plc and the Group Tax and Treasury Director, a director of the Board. The Committee interfaces with the Finance Committee of National Grid plc and the Board and receives reports from the Pensions Committee.

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

Pensions committee

The Board's governance of the Company's pension schemes is provided through a Pensions Committee, which sits together with the Group Retirement Plans Committee under similar Terms of Reference.

Membership of the Committee comprises the Finance Director of National Grid plc and at least three global representatives including the Group Tax and Treasury Director, Global HR Director and Global Head of Pensions of National Grid plc. The Committee reports at least annually to the Finance Committee and provides an update to the Board through the Group Tax and Treasury Director.

Focus and oversight on pension matters is provided through the Board considering pensions as a separate agenda item at each of its board meetings.

Audit Committee

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

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

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

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

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

Five meetings took place during the last financial year. Committee membership and attendance at meetings is set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2017.

		Attendance
Clive Elphick (Chair)	Sufficiently Independent Director	5 of 5
Catherine Bell	Sufficiently Independent Director	5 of 5
Andy Agg	Group Tax and Treasury Director	4 of 5

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
Interim financial statements

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

Significant issues

The most significant issues the Committee considered during the year were matters relating to compliance and judgements made in the preparation of the interim and year end financial statements, including assumptions used in the calculation of provisions and pension liabilities. The Committee also considered the accounting for the liability management programme completed in the year, as well as the changes expected to regulatory reporting required with the introduction of the RIIO accounts for the year ended 31 March 2018.

Looking forwards, the Committee will continue to focus on the effectiveness of the risk management and internal control processes, providing input to the Group wide processes. The Committee continues to focus on any specific risks related to non-compliance with licence obligations and requests senior managers and external advisers to attend meetings to provide more detailed presentations on matters of non-compliance. The Committee informs the Board of risks and mitigating actions in relation to licence breaches that has been brought to the Committee's attention, enabling the Board to discuss and determine further action as required. Further detail on the risk management and internal control processes can be found in the section internal control and risk management, see page 18.

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

External audit

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

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

Following the National Grid plc Audit Committee audit tender process, Deloitte LLP will be recommended for appointment at the National Grid plc 2017 AGM, with the appointment effective for the year ending 31 March 2018. In preparation for the change in external auditor, the Audit Committee has received reports and updates on the transition process, from management and the external auditors.

Internal (corporate) audit

The Company does not have a separate internal audit function. This function is provided by National Grid's Corporate Audit function. The National Grid Corporate Audit function provides independent, objective, assurance to the National Grid Electricity Transmission Audit Committee, Safety, Environment and Health Committee (SEH) and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics. Audit work is delivered by a combination of suitably qualified employee, who typically have either a finance or operational business background and external co-source partners, where specific specialist skills are required.

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

As highlighted in National Grid's Annual Report and Accounts for 2016/17 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.

Consistent with prior years, an annual review was conducted by the Audit Committee of the level and make-up of the external audit and non-audit fees and the effectiveness, independence and objectivity of PwC. Following this process, the Audit Committee was satisfied with the effectiveness, independence and objectivity of PwC and recommended to the Board their reappointment for the year ended 31 March 2017 at the 2016 AGM.

Following the audit tender, the Audit Committee has recommended to the Board the appointment of Deloitte as auditors for the year ending 31 March 2018. A resolution to appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2017 AGM.

Business separation

Business Separation Compliance Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2017. 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	
Catherine Bell (SID*)	
Chris Bennett	Appointed 25 June 2016
Clive Elphick (SID*)	
Alan Foster	
Chris Murray	Resigned 27 July 2016
Cordi O'Hara	
Mark Ripley	Resigned 24 June 2016
Nicola Shaw CBE	Appointed 27 July 2016
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 2017. 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 11 to 22 which is incorporated by reference into this report.

Material interests in shares

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

Dividends

An interim dividend of £150 million was paid during the year (2015/16: £310 million interim dividend). The Directors have not proposed a final dividend.

Share capital

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

Research and development

Expenditure on research and development was £7 million during the year (2015/16: £10 million).

Financial instruments

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

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 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 2017 will be issued separately to the shareholder.

Going concern

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

By order of the Board

Alan Foster
Director
30 June 2017
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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). In preparing the group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and Disclosure Rules and Transparency Rules, on page 35, was approved by the Board and signed on its behalf.

On behalf of the Board

Alan Foster
Director
30 June 2017

Independent Auditors' report

to the Members of National Grid Electricity Transmission plc

Report on the financial statements

Our opinion

In our opinion:

- National Grid Gas plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2017 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the company balance sheet as at 31 March 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the company statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the company financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 28 to 33 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 28 to 33 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2017

Basis of preparation

(for National Grid Electricity Transmission)

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2018 or later years, explaining how significant changes are expected to affect our reported results.

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 consolidated financial statements were approved for issue by the Board of Directors on 30 June 2016.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2017 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 investments classified as available-for-sale.

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

A. Going concern

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

B. Basis of consolidation

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

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

C. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income - note 10.

D. Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

The area of judgement that has the most significant effect on the amounts recognised in the financial statements is detailed below:

- the categorisation of certain items as exceptional items and remeasurements and the definition of adjusted earnings – note 3.

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

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

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

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

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

Recent accounting developments

New IFRS accounting standards and interpretations adopted in 2016/17

The Group has adopted the following amendments to standards:

- Annual improvements to IFRSs 2012-2014 Cycle;
- Amendments to IFRS 11 'Joint Arrangements';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 'Property, Plant and Equipment'; and
- Amendments to IAS 38 'Intangible Assets'.

The adoption of these amendments has had no material impact on the results or financial statement disclosures.

New IFRS accounting standards and interpretations not yet adopted

The Company enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments'(IFRS 9), IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) and IFRS 16 'Leases'(IFRS 16). We are assessing the likely impact of these standards on the Group's financial statements.

i) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for National Grid in the year ending 31 March 2019.

The new standard provides enhanced detail and a five step revenue recognition approach to reflect the transfer of goods and services to customers.

The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements are underway and will continue into 2017/18 as we finalise our assessment of the impact of the new standard. Based on work to date we have identified two key areas that require further analysis to determine the impact on the Company:

- whether we act as principal or as agent for revenues collected on behalf of the Scottish and Offshore transmission operators. This is a gross versus net presentational issue that does not have an impact on earnings; and

- the timing of recognition of customer contributions for connections. In our business we currently recognise customer contributions over time as we have an ongoing Licence condition to maintain that connection over its life. IFRS 15 requires revenue to be recognised as control over the distinct and separable service is transferred to our customers. We are assessing whether this has an impact on the timing of our revenue recognition.

We plan to apply IFRS 15 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

ii) IFRS 16 'Leases'

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

iii) IFRS 9 'Financial Instruments'

IFRS 9 is effective for National Grid in the year ending 31 March 2019. The changes to IFRS 9 principally impact the accounting for the classification of financial instruments, impairment of financial instruments and hedge accounting. The key change influences the future assessment of impairments using an 'expected loss' method rather than current 'incurred loss' method; this will result in impairments typically being recorded earlier.

To date we have not identified any significant changes to the accounting for financial liabilities and the impact on debt/derivatives on the balance sheet is anticipated to be limited.

To date we have not identified any significant changes to the accounting for financial liabilities and the impact on debt/derivatives on the balance sheet is anticipated to be limited.

We are currently evaluating the impact of the hedge accounting guidance in the new standard. It is possible that changes in requirements will allow the opportunity to apply hedge accounting in a wider range of scenarios.

iv) Other

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

- Amendments to IAS 12 'Income Taxes';
- IAS 7 'Cash Flow Statements';
- Amendments to IFRS 2 'Share Based Payments';
- Amendments to IAS 7 'Statement of Cash Flows';
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Investment Property'.

Effective dates remain subject to the EU endorsement process.

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

Consolidated income statement

for the years ended 31 March

	Notes	2017 £m	2017 £m	2016 £m	2016 £m
Revenue	1(a)		**4,439**		3,979
Operating costs	2		**(3,093)**		(2,818)
Operating profit	1 (b)		**1,346**		1,161
Finance income	4		**2**		1
Finance costs					
Before exceptional items and remeasurements	4	**(162)**		(128)	
Exceptional items and remeasurements	3, 4	**(500)**		(12)	
Total finance costs	4		**(662)**		(140)
Profit before tax					
Before exceptional items and remeasurements		**1,186**		1,034	
Exceptional items and remeasurements	3	**(500)**		(12)	
Total profit before tax			**686**		1,022
Tax					
Before exceptional items and remeasurements	5	**(243)**		(213)	
Exceptional items and remeasurements	3, 5	**156**		97	
Total tax	5		**(87)**		(116)
Profit after tax					
Before exceptional items and remeasurements		**943**		821	
Exceptional items and remeasurements	3	**(344)**		85	
Profit for the year attributable to owners of the parent			**599**		906

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2017 £m	2016 £m
Profit for the year		**599**	906
Other comprehensive (loss)/income:			
Items that will never be reclassified to profit or loss			
Remeasurements of net retirement benefit obligations	17	**(278)**	107
Tax on items that will never be reclassified to profit or loss	5	**46**	(24)
Total items that will never be reclassified to profit or loss		**(232)**	83
Items that may be reclassified subsequently to profit or loss			
Net (loss)/gain in respect of cash flow hedges		**(30)**	6
Transferred to profit or loss in respect of cash flow hedges		**108**	22
Tax on items that may be reclassified subsequently to profit or loss	5	**(14)**	(7)
Total items that may be reclassified subsequently to profit or loss		**64**	21
Other comprehensive (loss)/income for the year, net of tax		**(168)**	104
Total comprehensive income for the year attributable to owners of the parent		**431**	1,010

Consolidated statement of changes in equity

	Note	Called up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2015		44	(89)	2,115	2,070
Profit for the year		-	-	906	906
Total other comprehensive income for the year		-	21	83	104
Total comprehensive income for the year		-	21	989	1,010
Equity dividends	6	-	-	(310)	(310)
Share-based payments		-	-	3	3
Tax on share based payments		-	-	1	1
At 31 March 2016		44	(68)	2,798	2,774
Profit for the year		-	-	599	599
Total other comprehensive loss for the year		-	64	(232)	(168)
Total comprehensive income for the year		-	64	367	431
Equity dividends	6	-	-	(150)	(150)
Share-based payments		-	-	5	5
Tax on share based payments		-	-	1	1
At 31 March 2017		**44**	**(4)**	**3,021**	**3,061**

Cash flow hedge reserve

The cash flow hedge reserve balance will be transferred to the income statement until the committed future cash flows from capital projects are paid. The amount due to be released from reserves to the income statement next year is a gain of £3m (2016: £27m), with the remainder to be released based on the stage of completion of existing capital projects.

Consolidated statement of financial position

as at 31 March

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible assets	7	**269**	205
Property, plant and equipment	8	**12,280**	11,736
Derivative financial assets	10	**476**	449
Total non-current assets		**13,025**	12,390
Current assets			
Inventories	11	**44**	61
Trade and other receivables	12	**393**	259
Financial and other investments	9	**350**	426
Derivative financial assets	10	**27**	35
Current tax asset		**6**	6
Cash and cash equivalents	13	**17**	2
Total current assets		**837**	789
Total assets		**13,862**	13,179
Current liabilities			
Borrowings	14	**(1,502)**	(1,221)
Derivative financial liabilities	10	**(246)**	(74)
Trade and other payables	15	**(887)**	(928)
Provisions	18	**(11)**	(11)
Total current liabilities		**(2,646)**	(2,234)
Non-current liabilities			
Borrowings	14	**(5,878)**	(5,973)
Derivative financial liabilities	10	**(470)**	(663)
Other non-current liabilities	16	**(459)**	(381)
Deferred tax liabilities	5	**(778)**	(809)
Pensions benefit obligations	17	**(507)**	(270)
Provisions	18	**(63)**	(75)
Total non-current liabilities		**(8,155)**	(8,171)
Total liabilities		**(10,801)**	(10,405)
Net assets		**3,061**	2,774
Equity			
Share capital	19	**44**	44
Retained earnings		**3,021**	2,798
Cash flow hedge reserve		**(4)**	(68)
Total equity		**3,061**	2,774

The consolidated financial statements set out on pages 44 to 81 were approved by the Board of Directors and authorised for issue on 30 June 2017
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	2017 £m	2016 £m
Cash flows from operating activities			
Operating profit	1 (b)	**1,346**	1,161
Adjustments for:			
Depreciation and amortisation		**419**	390
Share-based payment charge		**5**	3
Changes in working capital		**(67)**	(48)
Changes in pension obligations		**(48)**	(47)
Changes in provisions		**(12)**	(8)
Loss on disposal of property, plant and equipment		**14**	23
Loss on disposal of intangible assets		**2**	-
Cash flows generated from operations		**1,659**	1,474
Tax paid		**(100)**	(132)
Net cash inflow from operating activities		**1,559**	1,342
Cash flows from investing activities			
Purchases of intangible assets		**(96)**	(58)
Purchases of property, plant and equipment		**(868)**	(887)
Disposals of property, plant and equipment		**2**	3
Disposals of intangible assets		**2**	-
Interest received		**-**	1
Net disposals of short-term financial investments		**76**	52
Net cash flow used in investing activities		**(884)**	(889)
Cash flows from financing activities			
Proceeds from loans received		**1,242**	600
Repayment of loans		**(1,080)**	(110)
Settlement of short-term borrowings and derivatives		**(68)**	(467)
Interest paid		**(604)**	(167)
Dividends paid to shareholders	6	**(150)**	(310)
Net cash flow used in financing activities		**(660)**	(454)
Net increase/(decrease) in cash and cash equivalents	20(a)	**15**	(1)
Cash and cash equivalents at the start of the year		**2**	3
Net cash and cash equivalents at the end of the year	13	**17**	2

1. Segmental analysis

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

Our strategy in action

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

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

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

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

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

Electricity Transmission	High voltage electricity transmission networks in Great Britain.

Other activities relate to other commercial operations not included within the above segment and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2017.

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

(a) Revenue

	2017 Total sales £m	2016 Total sales £m
Operating segment		
Electricity Transmission	**4,438**	3,977
Other activities	**1**	2
	4,439	3,979

All sales are to third parties.

Analysis of revenue by major customer:	**2017 £m**	2016 £m
Customer A	**510**	697
Customer B	**496**	512
Customer C	**475**	536

No other single customer contributed 10% or more to the Group's revenue in either 2017 or 2016.

1. Segmental analysis (continued)

(b) Operating profit

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Operating segment				
Electricity Transmission	**1,361**	1,173	**1,361**	1,173
Other activities	**(15)**	(12)	**(15)**	(12)
	1,346	1,161	**1,346**	1,161
Reconciliation to profit before tax:				
Operating profit	**1,346**	1,161	**1,346**	1,161
Finance income	**2**	1	**2**	1
Finance costs	**(162)**	(128)	**(662)**	(140)
Profit before tax	**1,186**	1,034	**686**	1,022

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Operating segment				
Electricity Transmission	**1,028**	1,084	**419**	390
	1,028	1,084	**419**	390
By asset type				
Property, plant and equipment	**932**	1,026	**391**	362
Intangible assets	**96**	58	**28**	28
	1,028	1,084	**419**	390

2. Operating costs

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Depreciation and amortisation	**419**	390	**419**	390
Payroll costs	**156**	151	**156**	151
Rates	**86**	85	**86**	85
Balancing Service Incentive Scheme	**1,121**	907	**1,121**	907
Payments to other UK network owners	**1,008**	970	**1,008**	970
Research and Development expenditure	**7**	10	**7**	10
Operating leases	**17**	15	**17**	15
Inventory consumed	**10**	22	**10**	22
Other	**269**	268	**269**	268
	3,093	2,818	**3,093**	2,818

(a) Payroll costs

	2017 £m	2016 £m
Wages and salaries	**172**	168
Social security costs	**24**	20
Pension costs (note 17)	**42**	39
Share-based payments	**5**	3
Severance costs (excluding pension costs)	**1**	3
	244	233
Less: payroll costs capitalised	**(88)**	(82)
	156	151

(b) Number of employees, including Directors

	31 March 2017 Number	**Monthly average 2017 Number**	31 March 2016 Number	Monthly average 2016 Number
Electricity Transmission	**3,692**	**3,657**	3,520	3,406

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

(c) Key management compensation

	2017 £m	2016 £m
Salaries and short-term employee benefits	**3**	3
Post-retirement benefits	**1**	1
Share-based payments	**2**	2
	6	6

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

2. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the company in respect of qualifying services for 2017 was £1,775,171 (2016: £1,447,307).

One of the directors exercised share options during 2017 including the highest paid director (2016: Four of the directors exercised share options).

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 2017, retirement benefits were accruing to six Directors under a defined benefit scheme (2016: eight Directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £626,609 for 2017 (2016: £441,239); and total accrued annual pension at 31 March 2017 for the highest paid Director was £41,547 (2016: £71,618).

There were no loss of office payments to Directors in 2017 (2016: £nil).

(e) Auditors' remuneration

	2017 £m	2016 £m
Audit services		
Audit of the parent Company's individual and consolidated financial statements	**0.3**	0.2
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services	**0.3**	0.3
Other non-audit fees	**0.5**	-

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

3. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of the performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

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

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

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

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

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

3. Exceptional items and remeasurements (continued)

	2017 £m	2016 £m
Included within finance costs:		
Exceptional items:		
Debt redemption costs (i)	**(481)**	-
Remeasurements:		
Net losses on derivative financial instruments (ii)	**(19)**	(12)
Total included within profit before tax	**(500)**	(12)
Included within tax:		
Exceptional credits arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in UK corporation tax rate (iii)	**56**	94
Tax on exceptional items (i)	**96**	-
Tax on remeasurements (ii)	**4**	3
	156	97
Total exceptional items and remeasurements after tax	**(344)**	85
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**(329)**	94
Total remeasurements after tax	**(15)**	(9)
Total	**(344)**	85

Items included within finance costs

(i) During the financial year, the Company completed a public bond tender as part of a restructure to the National Grid plc financing portfolios. The Company re-purchased external fixed rate debt with a carrying value of £880m at a fair market value of £1,307m resulting in a cash loss of £427m. There was also unrealised loss of £105m taken to income statement on cash flow hedge de-designations which was partially offset by an unrealised gain of £51m resulting from the release of historic fair value hedge reserves designated against the repurchased fixed rate debt. The net position is a loss of £481m recorded in the consolidated income statement.

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

Items included within tax

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

4. Finance income and costs

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

	2017 £m	2016 £m
Finance income		
Interest income on financial instruments	**2**	1
	2	1
Finance costs		
Net interest on pension obligations	**(7)**	(14)
Interest expense on finance liabilities held at amortised cost:		
Bank loans and overdrafts	**(38)**	(8)
Other borrowings	**(210)**	(211)
Derivatives	**13**	18
Unwinding of discount on provisions	**(4)**	(4)
Less: interest capitalised (i)	**84**	91
	(162)	(128)
Exceptional items:		
Debt redemption costs	**(481)**	-
Remeasurements:		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Ineffectiveness on derivatives designated as fair value hedges (iii)	**12**	18
Ineffectiveness on derivatives designated as cash flow hedges	**(9)**	(6)
Derivatives not designated as hedges or ineligible for hedge accounting	**(22)**	(24)
	(500)	(12)
	(662)	(140)
Net finance costs	**(660)**	(139)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.5% (2016: 3.3%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £17m (2016: £18m).

(ii) Includes a net foreign exchange loss on financing activities of £127m (2016: £27m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net loss on instruments designated as fair value hedges of £9m (2016: £12m gain), and a net gain of £21m (2016: £6m gain) arising from fair value adjustments to the carrying value of debt.

5. Tax

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

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

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

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

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

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

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

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

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

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

Tax charged/(credited) to the income statement

	2017 £m	2016 £m
Tax before exceptional items and remeasurements	**243**	213
Exceptional tax on items not included in profit before tax (note 3)	**(56)**	(94)
Tax on other exceptional items and remeasurements (note 3)	**(100)**	(3)
Tax on total exceptional items and remeasurements (note 3)	**(156)**	(97)
Total tax charge	**87**	116

Tax as a percentage of profit before tax

	2017 %	2016 %
Before exceptional items and remeasurements	**20.5**	20.6
After exceptional items and remeasurements	**12.7**	11.4

The tax charge for the year can be analysed as follows:	**2017 £m**	2016 £m
Current tax		
Corporation tax at 20% (2016: 20%)	**84**	151
Corporation tax adjustment in respect of prior years	**3**	(22)
Total current tax	**87**	129
Deferred tax		
Deferred tax	**2**	(35)
Deferred tax adjustment in respect of prior years	**(2)**	22
Total deferred tax	**-**	(13)
Total tax charge	**87**	116

5. Tax (continued)

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

	2017 £m	2016 £m
Current tax		
Share-based payments	**(2)**	(1)
Deferred tax		
Cash flow hedges	**14**	7
Share-based payments	**1**	-
Remeasurements of net retirement benefit obligations	**(46)**	24
	(33)	30
Analysed as:		
Total tax recognised in the statement of other comprehensive income	**(32)**	31
Total tax relating to share-based payment recognised directly in equity	**(1)**	(1)
	(33)	30

The tax charge for the year after exceptional items and remeasurements is lower than (2016: lower than) the standard rate of corporation tax in the UK of 20% (2016: 20%):

	Before exceptional items and remeasure-ments 2017 £m	After exceptional items and remeasure-ments 2017 £m	Before exceptional items and remeasure-ments 2016 £m	After exceptional items and remeasure-ments 2016 £m
Profit before tax				
Before exceptional items and remeasurements	**1,186**	**1,186**	1,034	1,034
Exceptional items and remeasurements	**-**	**(500)**	-	(12)
Profit before tax	**1,186**	**686**	1,034	1,022
Profit before tax multiplied by UK corporation tax rate of 20% (2016: 20%)	**237**	**137**	207	204
Effect of:				
Adjustments in respect of prior years	**1**	**1**	-	-
Expenses not deductible for tax purposes	**9**	**9**	7	7
Non taxable income	**(3)**	**(3)**	-	-
Impact of share-based payments	**(1)**	**(1)**	(1)	(1)
Deferred tax impact of change in UK tax rate	**-**	**(56)**	-	(94)
Total tax charge	**243**	**87**	213	116
	%	**%**	%	%
Effective tax rate	**20.5**	**12.7**	20.6	11.4

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. Whilst the UK remains part of the EU, the evolution of the application of EU tax competition regulations continues to create uncertainty over tax legislation and at this stage it is not possible to quantify any potential impact on the financial statements. As the group's presence is in the UK, we do not envisage a significant impact on the Group following the UK government's decision to invoke Article 50 to leave the EU.

5. Tax (continued)

Tax included within the statement of financial position

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

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payment £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2015	-	(6)	(81)	(22)	(3)	(112)
Deferred tax liabilities at 31 March 2015	902	-	-	-	1	903
At 1 April 2015	902	(6)	(81)	(22)	(2)	791
(Credited)/charged to income statement	(23)	-	9	-	1	(13)
Charged to other comprehensive income	-	-	24	7	-	31
At 31 March 2016	879	(6)	(48)	(15)	(1)	809
Deferred tax assets at 31 March 2016	-	(6)	(48)	(15)	(2)	(71)
Deferred tax liabilities at 31 March 2016	879	-	-	-	1	880
At 1 April 2016	879	(6)	(48)	(15)	(1)	809
(Credited)/charged to income statement	(8)	-	8	-	-	-
(Credited)/charged to other comprehensive income	-	1	(46)	14	-	(31)
At 31 March 2017	**871**	**(5)**	**(86)**	**(1)**	**(1)**	**778**
Deferred tax assets at 31 March 2017	-	(5)	(86)	(1)	(2)	(94)
Deferred tax liabilities at 31 March 2017	871	-	-	-	1	872
At 31 March 2017	**871**	**(5)**	**(86)**	**(1)**	**(1)**	**778**

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 £778m (2016: £809m).

6. Dividends

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

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

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

	2017 pence (per ordinary share)	**2017** £m	2016 pence (per ordinary share)	2016 £m
Ordinary dividends				
Interim dividend paid in the year	**34.30**	**150**	70.89	310

7. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the length of period we expect to receive a benefit from 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 the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

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

	Software £m
Cost at 1 April 2015	326
Additions	58
Reclassifications between categories (i)	1
Cost at 31 March 2016	385
Additions	96
Disposals	(14)
Cost at 31 March 2017	467
Accumulated amortisation at 1 April 2015	(152)
Amortisation charge for the year	(28)
Accumulated amortisation at 31 March 2016	(180)
Amortisation charge for the year	(28)
Disposals	10
Accumulated amortisation at 31 March 2017	(198)
Net book value at 31 March 2017	**269**
Net book value at 31 March 2016	205

(i) Reclassifications represents amounts transferred from property, plant and equipment (see note 8).

8. Property, plant and equipment

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

Our strategy in action

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

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

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

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

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

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

Depreciation periods	**Years**
Freehold and leasehold buildings	up 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, depending on their magnitude, recognised as an exceptional item within operating profit in the income statement.

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

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

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

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

8. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2015	555	11,531	3,235	87	15,408
Additions	4	54	960	8	1,026
Disposals	-	(32)	(23)	(1)	(56)
Reclassifications (i and iii)	111	995	(1,231)	95	(30)
Other movements (ii)	-	(7)	-	-	(7)
Cost at 31 March 2016	670	12,541	2,941	189	16,341
Additions	19	93	818	2	932
Disposals	-	(58)	(15)	(1)	(74)
Reclassifications (i)	72	988	(957)	(84)	19
Cost at 31 March 2017	761	13,564	2,787	106	17,218
Accumulated depreciation at 1 April 2015	(92)	(4,111)	-	(68)	(4,271)
Depreciation charge for the year	(7)	(347)	-	(8)	(362)
Disposals	-	28	-	-	28
Accumulated depreciation at 31 March 2016	(99)	(4,430)	-	(76)	(4,605)
Depreciation charge for the year	(14)	(369)	-	(8)	(391)
Disposals	-	58	-	-	58
Accumulated depreciation at 31 March 2017	(113)	(4,741)	-	(84)	(4,938)
Net book value at 31 March 2017	**648**	**8,823**	**2,787**	**22**	**12,280**
Net book value at 31 March 2016	571	8,111	2,941	113	11,736

(i) Reclassifications include amounts transferred between categories and (to)/from inventory.

(ii) Credit relating to settlement of legal claims relating to equipment procurement of £7m in 2016.

(iii) Reclassifications include amounts transferred to intangible assets (see note 7).

	2017 £m	2016 £m
Information in relation to property, plant and equipment:		
Capitalised interest included within cost	**1,309**	1,225
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**43**	7
Non-current liabilities	**359**	346

9. Financial and other investments

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

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

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

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

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

	2017 £m	2016 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances (i)	**349**	425
Total financial and other investments	**350**	426

(i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £349m (2016: £425m).

Available-for-sale investments are recorded at fair value. Due to their short maturities, the carrying value of loans and receivables approximates their fair value.

10. Derivative financial instruments

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

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, either in the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

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

10. Derivative financial instruments (continued)

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

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**439**	**(389)**	**50**	424	(376)	48
Cross-currency interest rate swaps	**63**	**(54)**	**9**	53	(145)	(92)
Foreign exchange forward contracts	**1**	**(1)**	**-**	7	(3)	4
Inflation linked swaps	**-**	**(272)**	**(272)**	-	(213)	(213)
Total	**503**	**(716)**	**(213)**	484	(737)	(253)

The maturity of derivative financial instruments is as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**27**	**(246)**	**(219)**	35	(74)	(39)
In 1 - 2 years	**-**	**(20)**	**(20)**	-	(96)	(96)
In 2 - 3 years	**-**	**(11)**	**(11)**	-	(24)	(24)
In 3 - 4 years	**-**	**-**	**-**	-	(2)	(2)
In 4 - 5 years	**-**	**-**	**-**	-	-	-
More than 5 years	**476**	**(439)**	**37**	449	(541)	(92)
Non-current	**476**	**(470)**	**6**	449	(663)	(214)
Total	**503**	**(716)**	**(213)**	484	(737)	(253)

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

	2017 £m	2016 £m
Interest rate swaps	**(3,494)**	(3,731)
Cross-currency interest rate swaps	**(1,236)**	(1,236)
Foreign exchange forward contracts	**(229)**	(312)
Inflation linked swaps	**(639)**	(631)
Total	**(5,598)**	(5,910)

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

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

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative financial instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid Electricity Transmission uses two hedge accounting methods, which are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are offset in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**71**	22

10. Derivative financial instruments (continued)

Cash flow hedges

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

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

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

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

	2017	2016
	£m	£m
Cross-currency interest rate/interest rate swaps	**(45)**	(94)
Foreign exchange forward contracts	**-**	4
Inflation linked swaps	**-**	(65)
Cash flow hedges	**(45)**	(155)

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2017	2016
	£m	£m
Cross-currency interest rate/interest rate swaps	**33**	28
Inflation linked swaps	**(272)**	(148)
Derivatives not in a formal hedge relationship	**(239)**	(120)

Discontinuation of hedge accounting

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

Embedded derivatives

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

11. Inventories

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

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

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

	2017 £m	2016 £m
Raw materials, spares and consumables	**44**	61

The above table includes a £15m provision for obsolescence against raw materials and consumables at 31 March 2017 (2016: £16m).

12. Trade and other receivables

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

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

Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. All other receivables are recorded at amortised cost. The provision as at 31 March 2017 was £3m (2016: £2m).

	2017 £m	2016 £m
Trade receivables	**88**	50
Amounts owed by fellow subsidiaries of National Grid plc	**35**	10
Prepayments and accrued income	**249**	190
Other receivables	**21**	9
	393	259

Provision for impairment of receivables	**2017 £m**	2016 £m
At 1 April	**2**	1
Charge for the year, net of recoveries	**1**	1
As at 31 March	**3**	2

Trade receivables past due but not impaired

	2017 £m	2016 £m
Up to 3 months past due	**23**	8
3 to 6 months past due	**-**	1
Over 6 months past due	**2**	1
	25	10

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

13. Cash and cash equivalents

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

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

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

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

	2017 £m	2016 £m
Cash at bank and short-term deposits	**17**	2
Net cash and cash equivalents	**17**	2

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

14. Borrowings

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

Our strategy in action

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

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

	2017 £m	2016 £m
Current		
Bank loans	**117**	296
Bonds	**615**	58
Borrowings from fellow subsidiaries of National Grid plc	**1**	1
Borrowings from the ultimate parent company	**769**	866
	1,502	1,221
Non-current		
Bank loans	**1,740**	819
Bonds	**3,796**	5,154
Borrowings from the ultimate parent company	**342**	-
	5,878	5,973
Total	**7,380**	7,194

Total borrowings are repayable as follows:	**2017 £m**	2016 £m
Less than 1 year	**1,502**	1,221
In 1 - 2 years	**541**	518
In 2 - 3 years	**242**	527
In 3 - 4 years	**418**	219
In 4 - 5 years	**-**	410
More than 5 years		
by instalments	**919**	604
other than by instalments	**3,758**	3,695
	7,380	7,194

14. Borrowings (continued)

The fair value of borrowings at 31 March 2017 was £8,680m (2016: £8,168m). Where market values were available, fair value of borrowings (Level 1) was £2,127m (2016: £3,324m). Where market values are not available, fair value of borrowings (Level 2) was £6,553m (2016: £4,845m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2017 was £7,228m (2016: £6,959m).

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 £103m (2016: £96m) in respect of cash received under collateral agreements.

At 31 March 2017, we had committed credit facilities of £1,515m (2016: £765m) of which £1,515m was undrawn (2016: £765m undrawn). All of the unused facilities at 31 March 2017 and at 31 March 2016 were held as back up to commercial paper and similar borrowings.

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

15. Trade and other payables

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

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

	2017 £m	2016 £m
Trade payables	**541**	617
Amounts owed to fellow subsidiaries of National Grid plc	**38**	56
Deferred income	**206**	154
Social security and other taxes	**72**	83
Other payables	**30**	18
	887	928

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

16. Other non-current liabilities

Other non-current liabilities includes deferred income which will not be recognised as income until after 31 March 2017. It also includes payables that are not due until after that date.

	2017 £m	2016 £m
Deferred income	**384**	371
Other payables	**75**	10
	459	381

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

17. Pensions

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

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

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

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

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

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

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

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

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

Risks

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

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

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

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

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

17. Pensions (continued)

Actuarial information

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

The 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 employer's contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuation was carried out as at 31 March 2016.

The results of the 2016 valuation are shown below:

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

The actuarial valuation at 31 March 2016 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 40.7% of pensionable earnings (currently an average of 33.7% by employers and an average of 7% by employees). The next actuarial valuation is required with an effective date no later than 31 March 2019.

Following the 2016 valuation, National Grid and the Trustees agreed a recovery plan that would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £48m were made in 2016/17, and will rise in line with RPI until 2026/27. As part of the agreement, National Grid has established security arrangements with a charge in favour of the Trustees. At 31 March 2017 the value of this was required to be £212m. This was provided via £212m in letters of credit. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, if NGET fails to make the required contributions in relation to the scheme, or if NGET ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme moves into surplus. National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500m should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET’s credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

Amounts recognised in the statement of financial position

	2017 **£m**	2016 £m
Present value of funded obligations	**(3,372)**	(2,781)
Fair value of scheme assets	**2,916**	2,556
	(456)	(225)
Present value of unfunded obligations	**(51)**	(45)
Net defined benefit liability	**(507)**	(270)
Represented by:		
Liabilities	**(507)**	(270)
	(507)	(270)

17. Pensions (continued)

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

	2017 £m	2016 £m
Included within payroll costs		
Defined contribution scheme costs	**17**	14
Defined benefit scheme costs:		
Current service cost	**27**	27
Contributions from other employers	**(3)**	(8)
Past service credit - redundancies	**(1)**	(1)
Special termination benefit cost - redundancies	**3**	5
Settlement credit	**(2)**	-
Past service cost - augmentations	**1**	2
	42	39
Included within finance income and costs		
Interest cost	**7**	14
Total included in the income statement	**49**	53
Remeasurements of net retirement benefit obligations	**(278)**	107
Total included in the statement of other comprehensive income	**(278)**	107

Reconciliation of the net defined benefit liability

	2017 £m	2016 £m
Opening net defined benefit liability	**(270)**	(410)
Cost recognised in the income statement	**(35)**	(47)
Remeasurement effects recognised in the statement of other comprehensive income	**(278)**	107
Employer contributions	**76**	80
Closing net defined benefit liability	**(507)**	(270)

	2017 £m	2016 £m
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(2,826)**	(2,860)
Current service cost	**(27)**	(27)
Interest cost	**(91)**	(92)
Actuarial gains - experience	**11**	43
Actuarial losses - financial assumptions	**(617)**	-
Past service credit - redundancies	**1**	1
Special termination benefit cost - redundancies	**(3)**	(5)
Past service cost - augmentations	**(1)**	(2)
Settlement of defined benefit obligation	**13**	-
Employee contributions	**(1)**	(1)
Benefits paid	**118**	117
Closing defined benefit obligations	**(3,423)**	(2,826)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**2,556**	2,450
Interest income	**84**	78
Return on assets greater than assumed	**328**	64
Employer contributions	**76**	80
Employee contributions	**1**	1
Settlement of assets	**(11)**	-
Benefits paid	**(118)**	(117)
Closing fair value of plan assets	**2,916**	2,556
Actual return on plan assets	**412**	142
Expected contributions to plans in the following year	**72**	74

17. Pensions (continued)

Asset allocations

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

	2017 Quoted £m	2017 Unquoted £m	2017 Total £m	2016 Quoted £m	2016 Unquoted £m	2016 Total £m
Equities	**949**	**98**	**1,047**	812	159	971
Corporate bonds	**48**	**-**	**48**	75	-	75
Government securities	**138**	**-**	**138**	98	-	98
Property	**90**	**91**	**181**	90	94	184
Liability matching assets (i)	**1,412**	**-**	**1,412**	1,179	-	1,179
Other	**63**	**27**	**90**	48	1	49
Total	**2,700**	**216**	**2,916**	2,302	254	2,556

(i) Includes liability-driven investment vehicles.

Target asset allocations

The scheme's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2017 is as follows:

	%
Equities	**36**
Other	**64**
Total	**100**

Actuarial assumptions

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

	2017 %	2016 %
Discount rate (i)	**2.4**	3.3
Rate of increase in salaries (ii)	**3.5**	3.2
Rate of increase in Retail Price Index (iii)	**3.2**	2.9

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

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2013. The assumption for the rate of increase in salaries for service after this date is 2.2% (2016: 2.1%).

(iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. The assumptions were 3.0% (2016: 2.9%) for increases in pensions in payment and 3.2% (2016: 2.9%) for increases in pensions in deferment.

For sensitivity analysis, see note 24.

	2017 years	2016 years
Assumed life expectations for a retiree at age 65		
Today:		
Males	**25.0**	24.9
Females	**25.7**	25.6
In 20 years:		
Males	**27.3**	27.2
Females	**28.5**	28.4

18. Provisions

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

Our strategy in action

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

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

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

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

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

	Environmental £m	Other £m	Total provisions £m
At 1 April 2015	72	20	92
Utilised	(2)	(5)	(7)
Unwinding of discount	3	1	4
Unused amounts reversed	(3)	-	(3)
At 31 March 2016	70	16	86
Additions	10	3	13
Utilised	(2)	(6)	(8)
Unwinding of discount	3	1	4
Unused amounts reversed	(21)	-	(21)
At 31 March 2017	**60**	**14**	**74**

	2017 £m	2016 £m
Current	**11**	11
Non-current	**63**	75
	74	86

Environmental provision

The environmental provision is calculated on an discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. Cash flows are expected to be incurred between 2017 and 2077. As a result of an improvement to the estimates used in the environmental provision, £21 million was released to the income statement during the year. This was partly offset by a £10 million increase in the provision due to a reduction in the real discount rate from 2% to 1%. The undiscounted amount is £75m (2016: £94m).

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

Other provisions

The two most significant other provisions are business reorganisation costs of £4m, which are expected to be incurred until 2019, and employer liability claims of £6m (2016: £7m). In accordance with insurance industry practice, the estimate of employer liability claims is based on experience from previous years and there is therefore no identifiable payment date.

19. Share capital

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

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

	Number of shares millions	£m
At 31 March 2016 and 2017 - ordinary shares of 10p each		
Allotted, called-up and fully paid	437	44

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

20. Net Debt

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

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

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

	2017 £m	2016 £m
Increase/(decrease) in cash and cash equivalents	**15**	(1)
Decrease in financial investments	**(76)**	(53)
Increase in borrowings and related derivatives	**(94)**	(23)
Net interest paid on the components of net debt	**604**	165
Change in net debt resulting from cash flows	**449**	88
Changes in fair value of financial assets and liabilities and exchange movements	**58**	18
Net interest charge on the components of net debt	**(714)**	(201)
Movement in net debt (net of related derivative financial instruments) in the year	**(207)**	(95)
Net debt (net of related derivative financial instruments) at start of year	**(7,019)**	(6,924)
Net debt (net of related derivative financial instruments) at end of year	**(7,226)**	(7,019)

Composition of net debt

	2017 £m	2017 £m
Cash, cash equivalents and financial investments	**367**	428
Borrowings and bank overdrafts	**(7,380)**	(7,194)
Derivatives	**(213)**	(253)
Total net debt	**(7,226)**	(7,019)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	**Total £m**
At 1 April 2015	3	478	(7,123)	(282)	**(6,924)**
Cash flow	(1)	(52)	169	(28)	**88**
Fair value gains and losses and exchange movements	-	-	(21)	39	**18**
Interest income/(charges)	-	-	(219)	18	**(201)**
At 31 March 2016	2	426	(7,194)	(253)	**(7,019)**
Cash flow	15	(76)	539	(29)	**449**
Fair value gains and losses and exchange movements	-	-	(103)	161	**58**
Interest charges	-	-	(622)	(92)	**(714)**
At 31 March 2017	17	350	(7,380)	(213)	**(7,226)**
Balances at 31 March 2017 comprise:					
Non-current assets	-	-	-	476	**476**
Current assets	17	350	-	27	**394**
Current liabilities	-	-	(1,502)	(246)	**(1,748)**
Non-current liabilities	-	-	(5,878)	(470)	**(6,348)**
	17	**350**	**(7,380)**	**(213)**	**(7,226)**

21. Commitments and contingencies

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

Future capital expenditure	2017 £m	2016 £m
Contracted for but not provided	**1,003**	1,151
Operating lease commitments		
Amounts due:		
Less than 1 year	**12**	12
In 1 - 2 years	**10**	10
In 2 - 3 years	**7**	7
In 3 - 4 years	**4**	7
In 4 - 5 years	**3**	4
More than 5 years	**1**	3
	37	43

Other commitments, contingencies and guarantees
Guarantees in respect of a former associate amounting to £13m (2016: £14m). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,489m (2016: £1,239m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £280m (2016: £415m), expected to expire in 2017.

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

22. Related party transactions

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

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

	2017 £m	2016 £m
Income:		
Goods and services supplied (i)	**33**	24
	33	24
Expenditure:		
Services received (ii)	**(212)**	(198)
Corporate services received	**(17)**	(13)
Interest paid on borrowings from fellow subsidiaries	**(9)**	(7)
	(238)	(218)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable (iii)	**36**	9
Amounts payable (iv)	**(39)**	(56)
Advances to fellow subsidiaries (amounts due within one year):		
At 31 March	**1**	1
Borrowings payable to fellow subsidiaries (amounts due within one year):		
At 31 March	**(770)**	(867)
Borrowings payable to fellow subsidiaries (amounts due after one year):		
At 31 March	**(342)**	-

(i) Includes £5m in respect of joint ventures (2016: £6m).
(ii) Includes £160m in respect of joint ventures (2016: £168m).
(iii) Includes £1m in respect of joint ventures (2016: £1m).
(iv) Includes £nil in respect of joint ventures (2016: £4m).

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 subsidiaries are repayable on demand and bear interest at commercial rates.

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

23. Financial risk management

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

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

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

We have exposure to the following risks, which are described in more detail below:
- credit risk
- liquidity risk
- interest rate risk
- currency risk
- capital risk

(a) Credit risk

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

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the derivative instruments. The Company's limits are managed by the central treasury department of National Grid plc, as explained in the principal risks on pages 19 to 21.

As at 31 March 2017 and 2016, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Wholesale and retail credit risk

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

Offsetting financial assets and liabilities

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

23. Financial risk management (continued)

(a) Credit risk (continued)

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

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

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

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

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2016	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	484	-	484	(307)	(96)	81
Liabilities						
Derivative financial instruments	(737)	-	(737)	307	402	(28)
Total	(253)	-	(253)	-	306	53

23. 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 21 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities, and derivative assets and liabilities as at the reporting date:

At 31 March 2017	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	**(1,457)**	**(541)**	**(240)**	**(4,990)**	**(7,228)**
Interest payments on borrowings (i)	**(136)**	**(115)**	**(109)**	**(1,654)**	**(2,014)**
Other non-interest bearing liabilities	**(571)**	**(75)**	**-**	**-**	**(646)**
Derivative financial liabilities					
Derivative contracts - receipts	**328**	**231**	**94**	**102**	**755**
Derivative contracts - payments	**(399)**	**(246)**	**(107)**	**(286)**	**(1,038)**
Total at 31 March 2017	**(2,235)**	**(746)**	**(362)**	**(6,828)**	**(10,171)**

At 31 March 2016	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	(1,161)	(518)	(527)	(4,753)	(6,959)
Interest payments on borrowings (i)	(177)	(169)	(154)	(2,066)	(2,566)
Other non-interest bearing liabilities	(635)	(10)	-	-	(645)
Derivative financial liabilities					
Derivative contracts - receipts	62	246	203	130	641
Derivative contracts - payments	(57)	(338)	(253)	(428)	(1,076)
Total at 31 March 2016	(1,968)	(789)	(731)	(7,117)	(10,605)

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

(c) Interest rate risk

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

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

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

During 2017 and 2016, net debt was managed using derivative instruments to hedge interest rate risk as follows:

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

23. Financial risk management (continued)

(c) Interest rate risk (continued)

	2016			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash	-	2	-	2
Financial investments	-	426	-	426
Borrowings	(2,620)	(1,280)	(3,294)	(7,194)
Pre-derivative position	(2,620)	(852)	(3,294)	(6,766)
Derivative effect	400	(543)	(110)	(253)
Net debt position (i)	(2,220)	(1,395)	(3,404)	(7,019)

(i) The impact of 2017/18 (2016: 2016/17) maturing short-dated interest rate derivatives is included

(d) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.
Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.
During 2017 and 2016, derivative financial instruments were used to manage foreign currency risk as follows:

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

	2016			
	Sterling £m	Euro £m	Other £m	Total £m
Cash	2	-	-	2
Financial investments	426	-	-	426
Borrowings	(5,993)	(262)	(939)	(7,194)
Pre-derivative position	(5,565)	(262)	(939)	(6,766)
Derivative effect	(1,718)	517	948	(253)
Net debt position	(7,283)	255	9	(7,019)

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

(e) Capital risk management

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

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our regulated business. The RAV gearing ratio at 31 March 2017 was 58% compared with 58% at 31 March 2016. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of RAV gearing. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 60%.

23. Financial risk management (continued)

(f) Fair value analysis

The financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2017				2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivative financial instruments	**-**	**503**	**-**	**503**	-	484	-	484
Liabilities								
Derivative financial instruments	**-**	**(464)**	**(252)**	**(716)**	-	(613)	(124)	(737)
Total	**-**	**39**	**(252)**	**(213)**	-	(129)	(124)	(253)

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

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

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

Our level 3 derivative financial instruments include inflation linked swaps where the inflation curve is illiquid. In valuing these instruments a third-party valuation is obtained to support each reported fair value.

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

	2017 Level 3 valuation £m	2016 Level 3 valuation £m
At 1 April	**(124)**	(98)
Net losses for the year (i)	**(23)**	(15)
Settlements	**-**	(11)
Reclassification into level 3 (ii)	**(105)**	-
At 31 March	**(252)**	(124)

(i) Losses of £23m (2016: £12m losses) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

(ii) Sterling RPI swaps reclassified from level 2 into level 3.

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

	2017 Income Statement £m	2016 Income Statement £m
+20 basis point change in Limited Price Inflation (LPI) market curve (i)	**(58)**	(51)
-20 basis point change in LPI market curve (i)	**55**	50

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

24. Sensitivities on areas of estimation and uncertainty

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

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

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the table below due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the table below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2017 would result in a decrease in the income statement of £22 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2017		2016	
	Income Statement £m	**Net Assets £m**	Income Statement £m	Net Assets £m
One year average change in economic useful lives (pre-tax)				
Depreciation charge on property, plant and equipment	**9**	**9**	9	9
Amortisation charge on intangible assets	**1**	**1**	2	2
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	**5**	**5**	9	9
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	**(21)**	**(21)**	(25)	(25)
Pensions obligations benefit (pre-tax) (ii)				
Discount rate change of 0.5% (iii)	**6**	**333**	5	243
RPI rate change of 0.5% (iv)	**4**	**309**	4	228
Long-term rate of increase in salaries change of 0.5% (v)	**1**	**45**	1	35
Change of one year to life expectancy at age 65	**1**	**130**	1	94
Unbilled revenue at 31 March change of 10% (post-tax)	**22**	**22**	16	16
No hedge accounting for our derivative financial instruments (post-tax)	**(20)**	**(17)**	3	(5)

(i) The effect of a 10% change in fair value assumes no hedge accounting.

(ii) The changes shown are a change in the annual pension service charge and change in the defined benefit obligations.

(iii) 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 scheme.

(iv) 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.

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

	2017		2016	
	Income Statement £m	**Other equity reserves £m**	Income Statement £m	Other equity reserves £m
Financial risk (post-tax)				
RPI change of 0.5% (i)	**16**	**-**	13	-
Interest rates change of 0.5%	**5**	**22**	6	44
Euro exchange rate change of 10% (ii)	**-**	**14**	-	24

(i) Excludes sensitivities to LPI index. Further details on sensitivities are provided in note 24(f).

(ii) The other equity reserves impact arises from FX hedging instruments and does not reflect the related exchange impact on our contractually committed foreign currency cash flows, which offset this FX sensitivity movement. These foreign cash flows will arise from our capital investment expenditure contracts.

Pensions 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 assumptions that were reasonably possible as at 31 March 2017. 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 where the corresponding change to increases to pensions in payment, increases to pensions in deferment and resultant increases in salary is recognised.

Financial instruments assumptions

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

24. Sensitivities on areas of estimation and uncertainty (continued)

Financial instruments assumptions (continued)

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

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2017 and 2016 respectively;

- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;

- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and

- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

25. Ultimate parent company

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

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

26. Subsidiary undertakings, and joint ventures

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	Electricity market Balance and Settlement Code company for Great Britain	100% (i)
NGC Employees Shares Trustee Limited	Trustee of the NGC profit sharing scheme and NGC Employee Trust	50%
National Grid Electricity Group Trustee Limited	Pension nominee company	100%

(i) 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	Construction services for the England-Scotland interconnector	50%
Coreso SA (incorporated in Belgium)	Joint venture in relation to a European regional transmission operations coordination centre	20%

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

Company accounting policies

for the year ended 31 March 2017

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 2015 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 37.

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 statement of cash flows.

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 plc 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.

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 tangible fixed assets – notes 4 and 5.
- estimation of liabilities for pensions and other post-retirement benefits – note 14.
- valuation of financial instruments and derivatives – note 8.
- revenue recognition and assessment of unbilled revenue.
- environmental and other provisions – note 13.

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.

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.

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.

In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold properties	up to 50
Plant and machinery:	
– 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 the 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.

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 determined on the first-in, first-out (FIFO) method. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the stocks to their present location and condition.

J. Environmental costs

Environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

K. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year, including an assessment of services provided but not invoiced as at the year end and excludes value added tax and intra-company sales.

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

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 as a liability in 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 policies are set out in notes 9, 10, 12, 13, 14 and 15 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in the notes to the consolidated financial statements.

O. Hedge accounting

The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 10 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. 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.

R. Dividends

Interim dividends are recognised when they are paid to the Company's shareholder. Final dividends are recognised in the financial year in which they are approved.

Company balance sheet

as at 31 March

	Notes	2017 £m	2016 £m
Fixed assets			
Intangible assets	4	**269**	204
Tangible assets	5	**12,280**	11,737
		12,549	11,941
Current assets			
Stocks	6	**44**	61
Debtors	7	**398**	265
Derivative financial instruments (amounts falling due within one year)	8	**27**	35
Derivative financial instruments (amounts falling due after more than one year)	8	**476**	449
Investments	9	**350**	426
Cash at bank and in hand		**17**	2
		1,312	1,238
Creditors (amounts falling due within one year)	10	**(2,634)**	(2,224)
Net current liabilities		**(1,322)**	(986)
Total assets less current liabilities		**11,227**	10,955
Creditors (amounts falling due after more than one year)	11	**(6,807)**	(7,016)
Net pension liability	14	**(507)**	(270)
Provisions for liabilities	13	**(837)**	(880)
Net assets		**3,076**	2,789
Capital and reserves			
Share capital	15	**44**	44
Cash flow hedge reserve		**(4)**	(68)
Profit and loss account		**3,036**	2,813
Total shareholders' equity		**3,076**	2,789

The notes on pages 87 to 93 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 30 June 2017 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	Cash flow hedge reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2015	44	(89)	2,128	2,083
Profit for the year	-	-	907	907
Total other comprehensive income for the year	-	21	84	105
Total comprehensive income for the year	-	21	991	1,012
Equity dividends	-	-	(310)	(310)
Share-based payments	-	-	3	3
Tax on share-based payments	-	-	1	1
At 31 March 2016	44	(68)	2,813	2,789
Profit for the year	-	-	599	599
Total other comprehensive income/(loss) for the year	-	64	(232)	(168)
Total comprehensive income for the year	-	64	367	431
Equity dividends	-	-	(150)	(150)
Share-based payments	-	-	5	5
Tax on share-based payments	-	-	1	1
At 31 March 2017	**44**	**(4)**	**3,036**	**3,076**

Cash flow hedge reserve

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

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 £599m (2016: £907m).

For further details of dividends paid and payable to shareholders, refer to note 6 in the consolidated financial statements.

Notes to the Company financial statements

1. Auditors' remuneration

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

	2017 £m	2016 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.3**	0.2
Other services		
Fees payable to the Company's auditors for audit related assurance services	**0.3**	0.3
Other non-audit fees	**0.5**	-

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.

2. Number of employees, including Directors

	2017 Monthly Average number	2016 Monthly Average number
Electricity Transmission	**3,657**	3,406

3. Directors' emoluments

Details of Directors' emoluments are provided in note 2(d) to the consolidated financial statements.

4. Intangible assets

	Software £m
Cost at 1 April 2016	384
Additions	96
Disposals	(13)
Cost at 31 March 2017	467
Accumulated amortisation at 1 April 2016	(180)
Amortisation charge for the year	(28)
Disposals	10
Accumulated amortisation at 31 March 2017	(198)
Net book value at 31 March 2017	**269**
Net book value at 31 March 2016	204

5. Tangible assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2016	671	12,540	2,943	188	16,342
Additions	19	93	818	2	932
Disposals	-	(58)	(16)	(1)	(75)
Reclassifications between categories (i)	71	989	(958)	(83)	19
Cost at 31 March 2017	761	13,564	2,787	106	17,218
Accumulated depreciation at 1 April 2016	(99)	(4,430)	-	(76)	(4,605)
Depreciation charge for the year	(14)	(369)	-	(8)	(391)
Disposals	-	58	-	-	58
Accumulated depreciation at 31 March 2017	(113)	(4,741)	-	**(84)**	(4,938)
Net book value at 31 March 2017	**648**	**8,823**	**2,787**	**22**	**12,280**
Net book value at 31 March 2016	572	8,110	2,943	112	11,737

(i) Reclassifications represents amounts transferred between categories and from inventory.

The net book value of land and buildings comprised:

	2017 £m	2016 £m
Freehold	**573**	493
Long leasehold (over 50 years)	**11**	11
Short leasehold (under 50 years)	**64**	68
	648	572

The cost of tangible fixed assets at 31 March 2017 included £1,311m (2016: £1,256m) 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 £43m (2016: £7m) and £359m (2016: £346m) respectively.

6. Stocks

	2017 £m	2016 £m
Raw materials, spares and consumables	**44**	61

Stocks are stated after provisions for obsolescence of £15m (2016: £16m).

7. Debtors

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade debtors	**88**	50
Amounts owed by fellow subsidiary undertakings	**35**	10
Other debtors	**26**	15
Prepayments and accrued income	**249**	190
	398	265

Debtors are stated after provisions for impairment of £3m (2016: £2m).

8. Derivative financial instruments

The fair value of derivative financial instruments are:

	2017			2016		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**27**	**(246)**	**(219)**	35	(74)	(39)
Amounts falling due after more than one year	**476**	**(470)**	**6**	449	(663)	(214)
	503	**(716)**	**(213)**	484	(737)	(253)

Further information relating to the recognition and measurement of derivative financial instruments is included in note 10 of the consolidated financial statements.

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

	2017 £m	2016 £m
Interest rate swaps	**(3,494)**	(3,731)
Cross-currency interest rate swaps	**(1,236)**	(1,236)
Foreign exchange forward currency	**(229)**	(312)
Inflation linked swaps	**(639)**	(631)
	(5,598)	(5,910)

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

9. Investments

	2017 £m	2016 £m
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances (i)	**349**	425
	350	426

Investment in subsidiaries of £0.2m (2016: £0.2m) are included within fixed assets. The names of the subsidiary undertakings are included in note 26 to the consolidated financial statements.

(i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £349m (2016: £425m).

10. Creditors (amounts falling due within one year)

	2017 £m	2016 £m
Borrowings (note 12)	**1,502**	1,221
Derivative financial instruments (note 8)	**246**	74
Trade creditors	**437**	511
Amounts owed to fellow subsidiary undertakings	**34**	56
Social security and other taxes	**72**	83
Other creditors	**19**	9
Accruals and deferred income	**324**	270
	2,634	2,224

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

	2017 £m	2016 £m
Borrowings (note 12)	**5,878**	5,973
Derivative financial instruments (note 8)	**470**	663
Other creditors	**76**	11
Deferred income	**383**	369
	6,807	7,016

Deferred income mainly comprises contributions to capital projects.

12. Borrowings

The following table analyses the company's total borrowings:

	2017 £m	2016 £m
Amounts falling due within one year:		
Bank loans	**117**	296
Bonds	**615**	58
Borrowings from fellow subsidiary undertakings	**1**	1
Borrowings from ultimate parent company	**769**	866
	1,502	1,221
Amounts falling due after more than one year:		
Bank loans	**1,740**	819
Bonds	**3,796**	5,154
Borrowings from fellow subsidiary undertakings	**342**	-
	5,878	5,973
Total borrowings	**7,380**	7,194

	2017 £m	2016 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,502**	1,221
In 1 - 2 years	**541**	518
In 2 - 3 years	**242**	527
In 3 - 4 years	**418**	219
In 4 - 5 years	**-**	410
More than 5 years by instalments	**919**	604
More than 5 years other than by instalments	**3,758**	3,695
	7,380	7,194

The notional amount outstanding of the Company's debt portfolio at 31 March 2017 was £7,228m (2016: £6,959m).

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

13. Provisions for liabilities

	Deferred tax £m	Environ-mental £m	Other £m	Total £m
At 1 April 2016	793	70	17	880
Charged to the profit and loss account	-	10	3	13
Transferred to reserves	(30)	-	-	(30)
Released to income statement (unused)	-	(21)	-	(21)
Unwinding of discount	-	3	1	4
Utilised	-	(2)	(7)	(9)
At 31 March 2017	**763**	**60**	**14**	**837**

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:

	2017 £m	2016 £m
Accelerated capital allowances	**856**	863
Other timing differences	**(93)**	(70)
	763	793

14. 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 17 to the consolidated financial statements.

Amounts recognised in the balance sheet of the Company are as follows:

	2017	2016
	£m	£m
Present value of funded obligations	**(3,372)**	(2,781)
Fair value of plan assets	**2,916**	2,556
	(456)	(225)
Present value of unfunded obligations	**(51)**	(45)
Net pension liability	**(507)**	(270)
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(2,826)**	(2,860)
Current service cost	**(27)**	(27)
Interest cost	**(91)**	(92)
Actuarial (losses)/gains - experience	**11**	43
Actuarial (losses)/gains - financial assumptions	**(617)**	-
Cost of service cost in respect of redundancies	**(2)**	(4)
Employee contributions	**(1)**	(1)
Past service cost in respect of augmentations	**(1)**	(2)
Settlement of defined benefit obligation	**13**	-
Benefits paid	**118**	117
Closing defined benefit obligations	**(3,423)**	(2,826)
Changes in the fair value of scheme assets		
Opening fair value of plan assets	**2,556**	2,450
Interest income on plan assets	**84**	78
Return on plan assets greater than discount rate	**328**	64
Employer contributions	**76**	80
Employee contributions	**1**	1
Settlement of assets	**(11)**	-
Benefits paid	**(118)**	(117)
Closing fair value of scheme assets	**2,916**	2,556

15. Share capital

	Number of shares 2017 millions	Number of shares 2016 millions	**2017 £m**	2016 £m
At 31 March 2016 and 2017 - ordinary shares of 10p each Allotted, called-up and fully paid	**437**	437	**44**	44

National Grid Electricty Transmission plc's immediate parent company is National Grid Holdings Limited. See note 25 of the consolidated accounts for further details.

16. Commitments and contingencies

(a) Future capital expenditure

	2017 £m	2016 £m
Contracted for but not provided	**1,003**	1,151

(b) Operating lease commitments

	2017 £m	2016 £m
Amounts due:		
Less than 1 year	**12**	12
In 1 - 2 years	**10**	10
In 2 - 3 years	**7**	7
In 3 - 4 years	**4**	7
In 4 - 5 years	**3**	4
More than 5 years	**1**	3
	37	43

(c) Other commitments, contingencies and guarantees
Guarantees in respect of a former associate amounting to £13m (2016: £14m). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,489m (2016: £1,239m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £280m (2016: £415m), expected to expire in 2017.

The company had no other off balance sheet commitments.

17. Related parties

The following material transactions are with joint ventures of the 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.

	2017 £m	2016 £m
Goods and services supplied	**5**	6
Services received	**160**	168
Amounts receivable at 31 March	**1**	1
Amounts payable at 31 March	**-**	4

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2017 (2016: £nil) and no expense has been recognised during the year (2016: £nil) in respect of bad or doubtful debts from the above related party transactions.

Glossary and definitions

References to the 'Company', 'we', 'our' and 'us' refer to National Grid 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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