nationalgrid

23 November 2016

National Grid Electricity Transmission plc
Report for the six months ended 30 September 2016

Solid underlying first half performance

- Progress towards another year of good performance
- Continued delivery of capital programme cost savings

Financial results

- Operating profit 13% higher at £689m

Six months ended 30 September	**Adjusted results[1]**			**Statutory results**		
£m (unaudited)	**2016**	2015	**% change**	**2016**	2015	**% change**
Revenue	**2,129**	1,963	8	**2,129**	1,963	8
Operating profit	**689**	610	13	**689**	610	13
Profit before tax	**615**	548	12	**218**	553	(61)
Capital investment	**586**	514	14			

Outlook

- On track to deliver another year of asset growth and good returns

[1] 'Adjusted results' and a number of other terms and performance measures used in this document are not defined within accounting standards or may be applied differently by other organisations. For clarity, definitions of these terms have been provided on page 5.

STRATEGIC AND OPERATIONAL REVIEW

Good performance in the first half of the year

In the first six months of the year, National Grid Electricity Transmission plc (the Company) continued to drive capital and operating cost efficiencies across the business, reinforcing the Company's expectation for another year of solid operational returns.

The Company maintains a relentless focus on reliability and has one of the highest levels of reliability in Europe.

Investment was £72m higher than the prior period. The Company maintains its drive for outperformance under its regulatory arrangements, delivering outputs at lower cost than the regulatory targets alongside good incentive performance.

Maintained strong safety and reliability for customers

The Company targets world class safety performance, measured as a lost time injury frequency rate of 0.10 or better for both directly employed staff and contractors (i.e. less than 0.1 lost time injuries per 100,000 hours worked in a 12-month period) and after the first six months is on track to achieve this target again at the full year. The Company remains focused on maintaining and improving this good level of performance going into the winter period and as workload increases across all businesses.

This encouraging safety performance has been achieved throughout a period of significant network investment activity, and the business has also maintained a very good level of reliability over this period.

Business continues to deliver efficiency savings to create value under regulatory arrangements

To maximise the benefit of regulatory arrangements, the Company continues to focus on improving the efficiency and effectiveness of its operations through innovation and an ongoing performance improvement agenda. Alongside value for money, customers also need safe and reliable networks and good customer service, which sets out the foundation for the critical, non-financial success factors for the long-term performance of the Company.

Ofgem continues to consult on the introduction of Onshore Competition for electricity transmission. National Grid remains supportive of competition where it is in the interests of consumers and is working to ensure that the costs, benefits and risks of competition are properly understood in relation to any proposals on a case by case basis. In its role as electricity system operator, National Grid is assisting Ofgem in developing the competitive regime in the interests of consumers and chairs an Electricity Networks Association facilitated working group to develop an early tendering model, as part of its overall contribution to the process.

National Grid continues to work closely with the Department for Business, Energy & Industrial Strategy and Ofgem to consider how to evolve the role of the electricity system operator in order to meet the needs of the changing energy market. In doing so the Company believes it is vital that there is no disruption to the pivotal role National Grid plays as system operator in balancing the network.

Focus on performance excellence drives efficiencies and significant savings to customers

The Company's focus remains on delivering totex efficiencies. We have made good progress with innovation to reduce both the time and cost to repair or replace assets. An example of this is its transformer replacement activity, where it has challenged industry standard practices, changed engineering design and revised procurement approaches. Over the remaining years of RIIO-T1 price control this new approach is expected to save around £140m delivering important savings for the business and customers.

The Company's Electricity System Operator is at the forefront of industry changes, and recently awarded battery storage contracts for the provision of grid balancing services through the Enhanced Frequency Response initiative. It is anticipated that this will deliver around £200m of savings over the four years of the programme, driving lower costs for customers. The 200MW of enhanced frequency response were procured at less than half the cost of the alternative, Firm Frequency Response.

Access to innovative, low cost funding options enabled by a strong balance sheet

After another period of significant investment in new assets, the Company's balance sheet remains robust, with strong investment grade credit ratings from Moody's, Standard & Poor's and Fitch.

Financing portfolio restructuring

In September 2016, 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 £861m (notional value of £867m) at a fair market value of £1,277m. The cash loss arising of £416m is offset by an unrealised gain resulting from the release of historic fair value hedge reserves designated against the repurchased fixed rate debt. The net position is a loss of £367m recorded in the consolidated income statement.

Board changes

As reported in the National Grid Electricity Transmission plc Annual Report and Accounts 2015/16, Mark Ripley stepped down from the Board of Directors on 24 June 2016 and was succeeded by Christopher Bennett effective from 25 June 2016.

On 27 July 2016, Chris Murray resigned as a director of the Board and Nicola Shaw was appointed on the same date.

REVIEW OF OPERATIONS

Six months ended 30 September	Adjusted operating profit		Capital investment	
(£m)	**2016**	2015	**2016**	2015
Electricity Transmission	**697**	610	**586**	514
Other activities*	**(8)**	-	**-**	-
	689	610	**586**	514

*Other activities relate to other commercial operations not included within the above segment and corporate activities.

Electricity Transmission

Operating profit in Electricity Transmission was £697m, up £87m for the first six months of the year compared to the same period in the prior year, including favourable timing movements of £54m. Excluding the impact of timing, operating profit was £33m higher reflecting increased net revenues due to RPI and higher base allowances. Controllable costs were lower, which was partially offset by higher depreciation reflecting the high levels of capital investment.

Capital investment of £586m was £72m higher than the prior period. This reflects increased spending on non-load related investments including circuit breaker projects, overhead lines, transformers and IS projects to ensure the business meets its RIIO outputs.

Overall investment in the period reflected £334m of non-load related investment whilst load related investment was £252m.

The Company expects to deliver its regulatory outputs for the year for a level of totex below the associated regulatory allowance. This mainly reflects continued delivery of efficiencies in the capital programme and non-load related maintenance activities. For example, for transformer replacement activity the business has challenged industry standard practices, changed its engineering design and revised its procurement approaches to deliver important savings for customers. Following a very strong performance in 2015/16, totex incentive performance is expected to be slightly lower this year. Totex for the first half of the year was approximately £720m compared to around £650m in the first half of 2015/16.

On 23 August 2016, Ofgem announced that it would allow National Grid to directly recover approximately half of the additional costs of procuring Black Start capability with Drax and Fiddler's Ferry. The remainder of the cost increase will be included within the Balancing Services Incentive Scheme (BSIS), where National Grid retains 30% of the benefit of cost savings up to a cap of £30m a year. Under these arrangements, National Grid's 'share' of the additional Black Start costs would be limited to £18m, which would be set against any outperformance in the current year, up to the level of the cap. Performance in BSIS in the first six months has been strong and the business remains on track to deliver incentive performance at least in line with the prior year.

On 18 August 2016, Ofgem announced its "minded to" position for the Mid-Period Review (MPR) for the RIIO-T1 price control. As expected, the scope of this MPR was narrow with no change to key financial parameters of the framework. The areas covered by the MPR related to specific outputs with eight year allowances in Electricity Transmission. Ofgem proposed that allowances should be adjusted to reflect that some specific outputs are no longer required. This results in a reduction of £38m in Electricity Transmission totex allowances. Ofgem also proposed to approve £21m of National Grid's request related to enhanced System Operator outputs. These changes are expected to take effect from April 2018.

National Grid welcomes Ofgem's continued commitment to the clarity and certainty offered by the eight-year RIIO framework, which has started to deliver important benefits for customers.

In its role as Electricity System Operator, the business published the Winter Outlook on 14 October 2016. This document indicates a generation margin of 6.6% for the winter 2016/17 to meet the security of supply standard. This includes 3.5 GW of contingency balancing reserve services, in the form of supplemental balancing reserve (SBR), approximately 1 GW more than for winter 2015/16. Demand side balancing reserve (DSBR) was not procured for winter 2016/17.

This winter, Electricity Margin Notices (EMN) will replace Notifications of Inadequate System Margin (NISM). An EMN is designed to inform the market that the Electricity System Operator would like the expected margin between forecast demand and available supply to be greater. It is a signal for the market to take action, either by increasing generation or by reducing demand.

APPENDIX: BASIS OF PRESENTATION AND DEFINITIONS

BASIS OF PRESENTATION

Adjusted and Statutory Results

Unless otherwise stated, all financial commentaries in this release are given on an adjusted basis.

In considering the financial performance of our business, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year attributable to equity shareholders into two components. The first of these components is referred to as an adjusted profit measure, also known as a business performance 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 collectively as the second component of the financial measures.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not fully effective. Commentary provided in respect of results after exceptional items and remeasurements is described as ‘statutory’.

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 if separately identified and analysed.

DEFINITIONS

Capital investment

‘Capital investment’ or ‘investment’ refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures.

Load related spend

’Load related spend’ is capital expenditure that relates to the installation of new assets to accommodate changes in the level or pattern of energy supply and demand.

Net revenue

‘Net revenue’ is revenue less pass-through costs, such as payments to other network owners and system balancing costs. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over or under-recovery of these costs is returned to, or recovered from, our customers.

Post-employment costs

Post-employment costs include the cost of pensions and other post-employment benefits.

Timing

Under the Company’s regulatory frameworks, the majority of the revenues that the Company is allowed to collect each year are governed by a regulatory price control. If the Company collects more than this allowed level of revenue, the balance must be returned to customers in subsequent years, and if it collects less than this level of revenue it may recover the balance from customers in subsequent years. These variances between allowed and collected revenues give rise to “over and under-recoveries”. In addition, a number of costs are pass-through costs, and are fully recoverable from customers. Any timing differences between costs of this type being incurred and their recovery through revenues are also included in over and under-recoveries. Timing differences also include an estimation of the difference between revenues earned under revenue incentive mechanisms and any associated revenues collected. Timing balances and movements exclude any adjustments associated with changes to controllable cost (totex) allowances or adjustments under the totex incentive mechanism.

Identification of these timing differences enables a better comparison of performance from one period to another. Opening balances of under and over-recoveries have been adjusted where appropriate to correspond with regulatory filings and calculations.

Totex
Under the RIIO regulatory arrangements the Company is incentivised to deliver efficiencies against cost targets set by the regulator. In total, these targets are set in terms of a regulatory definition of combined total operating and capital expenditure, also termed “totex”. The definition of totex differs from the total combined regulated controllable operating costs and regulated capital expenditure as reported in this statement according to IFRS accounting principles. Key differences are capitalised interest, capital contributions, exceptional costs, costs covered by other regulatory arrangements and unregulated costs.

CAUTIONARY STATEMENT

This announcement contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements. These statements include information with respect to National Grid Electricity Transmission plc's (the Company's) financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of the Company's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Company's ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union, announcements from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of the Company's IT systems and supporting technology; performance against regulatory targets and standards and against the Company's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this announcement include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in the Company's borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for the Company to maintain financial resources in certain parts of its business and restrictions on some transactions such as paying dividends, lending or levying charges; inflation or deflation; the delayed timing of recoveries and payments in the Company's regulated business and whether aspects of its activities are contestable; the funding requirements and performance of the Company's pension scheme and other post-employment benefit schemes; the failure to attract, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with the Company's employees or the breach of laws or regulations by its employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes in the energy mix and the integration of distributed energy resources, and the need to grow the Company's business to deliver its strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with joint ventures. For further details regarding these and other assumptions, risks and uncertainties that may impact the Company, please read the Strategic Report section and the 'Risk factors' on pages 21 to 22 of the Company's most recent Annual Report and Accounts. In addition, new factors emerge from time to time and the Company cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this announcement.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated income statement

for the six months ended 30 September

	Notes	2016 £m	2015 £m
Revenue	2(a)	**2,129**	1,963
Operating costs		**(1,440)**	(1,353)
Operating profit	2(b)	**689**	610
Finance costs			
Before exceptional items and remeasurements	4	**(74)**	(62)
Exceptional items and remeasurements	3	**(397)**	5
Total finance costs	4	**(471)**	(57)
Profit before tax			
Before exceptional items and remeasurements	2(b)	**615**	548
Exceptional items and remeasurements	3	**(397)**	5
Total profit before tax	2(b)	**218**	553
Tax			
Before exceptional items and remeasurements	5	**(127)**	(112)
Exceptional items and remeasurements	3	**131**	(1)
Total tax		**4**	(113)
Profit after tax			
Before exceptional items and remeasurements		**488**	436
Exceptional items and remeasurements	3	**(266)**	4
Profit for the period attributable to equity shareholders of the parent		**222**	440

Consolidated statement of comprehensive income
for the six months ended 30 September

	2016 £m	2015 £m
Profit for the period	**222**	440
Other comprehensive (loss)/income:		
Items that will never be reclassified to profit or loss		
Remeasurements - net retirement benefit obligations	**(237)**	81
Tax on items that will never be reclassified to profit or loss	**39**	(16)
Total items that will never be reclassified to profit or loss	**(198)**	65
Items that will or may be reclassified subsequently to profit or loss		
Net losses on cash flow hedges	**(13)**	(4)
Transferred to profit or loss on cash flow hedges	**1**	17
Tax on items that may be reclassified subsequently to profit or loss	**1**	(3)
Total items that will or may be reclassified subsequently to profit or loss	**(11)**	10
Other comprehensive (loss)/income for the period, net of tax	**(209)**	75
Total comprehensive income for the period attributable to equity shareholders of the parent	**13**	515

Consolidated statement of financial position

	Notes	30 September 2016 £m unaudited	31 March 2016 £m audited
Non-current assets			
Intangible assets		**236**	205
Property, plant and equipment		**12,093**	11,736
Derivative financial assets	6	**589**	449
Total non-current assets		**12,918**	12,390
Current assets			
Inventories		**41**	61
Trade and other receivables		**467**	259
Financial and other investments	8	**438**	426
Derivative financial assets	6	**75**	35
Current tax asset		**6**	6
Cash and cash equivalents	8	**8**	2
Total current assets		**1,035**	789
Total assets		**13,953**	13,179
Current liabilities			
Borrowings	8	**(2,257)**	(1,221)
Derivative financial liabilities	6	**(120)**	(74)
Trade and other payables		**(961)**	(928)
Provisions		**(11)**	(11)
Total current liabilities		**(3,349)**	(2,234)
Non-current liabilities			
Borrowings	8	**(5,412)**	(5,973)
Derivative financial liabilities	6	**(712)**	(663)
Other non-current liabilities		**(381)**	(381)
Deferred tax liabilities		**(749)**	(809)
Pension benefit obligations	9	**(490)**	(270)
Provisions		**(72)**	(75)
Total non-current liabilities		**(7,816)**	(8,171)
Total liabilities		**(11,165)**	(10,405)
Net assets		**2,788**	2,774
Equity			
Share capital		**44**	44
Retained earnings		**2,823**	2,798
Cash flow hedge reserve		**(79)**	(68)
Total equity		**2,788**	2,774

Consolidated statement of changes in equity

	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
	£m	£m	£m	£m
Changes in equity for the period:				
At 1 April 2016	44	2,798	(68)	2,774
Profit for the period	-	222	-	222
Total other comprehensive loss for the period	-	(198)	(11)	(209)
Total comprehensive income/(loss) for the period	-	24	(11)	13
Share-based payment	-	1	-	1
At 30 September 2016	**44**	**2,823**	**(79)**	**2,788**

	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
	£m	£m	£m	£m
Changes in equity for the period:				
At 1 April 2015	44	2,115	(89)	2,070
Profit for the period	-	440	-	440
Total other comprehensive income for the period	-	65	10	75
Total comprehensive income for the period	-	505	10	515
Share-based payment	-	2	-	2
At 30 September 2015	44	2,622	(79)	2,587

Consolidated cash flow statement
for the six months ended 30 September

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Total operating profit	2(b)	**689**	610
Adjustments for:			
Depreciation and amortisation		**213**	200
Share-based payment charge		**1**	2
Changes in working capital		**(137)**	(148)
Changes in provisions		**(5)**	(4)
Changes in pensions and other post-employment benefit obligations		**(21)**	(25)
Gain/(loss) on disposal of property, plant and equipment		**4**	(1)
Cash generated from operations		**744**	634
Tax paid		**(71)**	(59)
Net cash inflow from operating activities		**673**	575
Cash flows from investing activities			
Purchases of intangible assets		**(46)**	(23)
Purchases of property, plant and equipment		**(484)**	(526)
Disposals of property, plant and equipment		**1**	1
Net movements in financial and other investments		**(12)**	(15)
Net cash outflow used in investing activities		**(541)**	(563)
Cash flows from financing activities			
Proceeds received from loans		**639**	300
Repayment of loans		**(861)**	(110)
Net movements in short-term borrowings and derivatives		**615**	(123)
Interest paid		**(103)**	(84)
Exceptional finance cash flows on the redemption of debt		**(416)**	-
Net cash outflow used in financing activities		**(126)**	(17)
Net increase/(decrease) in cash and cash equivalents		**6**	(5)
Net cash and cash equivalents at start of period		**2**	3
Net cash and cash equivalents at end of period	8	**8**	(2)

Notes

1. Basis of preparation and new accounting standards, interpretations and amendments

The half year financial information covers the six month period ended 30 September 2016 and has been prepared under IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU), and the Disclosure and Transparency Rules of the Financial Conduct Authority. The half year financial information is unaudited but has been reviewed by the auditors and their report is attached to this document.

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

There are no new standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), that have had a material impact on the Group's results.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2017 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2016.

In preparing this half year financial information, the areas of judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2016.

Having made enquiries and reassessed the principal risks, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

2. Segmental analysis

The Board of Directors is National Grid Electricity Transmission plc's chief operating decision making body (as defined by IFRS 8 'Operating segments'). The segmental analysis is 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 segments. The performance of operating segments is assessed principally on the basis of operating profit before exceptional items and remeasurements.

The following table describes the main activities for each 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. All of the Group's sales and operations take place within the UK. There were no sales between segments.

(a) Revenue

Six months ended 30 September	**2016 £m**	2015 £m
Operating segments		
Electricity Transmission	**2,128**	1,962
Other activities	**1**	1
	2,129	1,963

2. Segmental analysis continued

(b) Operating profit

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
Six months ended 30 September	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m
Operating segments				
Electricity Transmission	**697**	610	**697**	610
Other activities	**(8)**	-	**(8)**	-
	689	610	**689**	610
Reconciliation to profit before tax:				
Operating profit	**689**	610	**689**	610
Finance costs	**(74)**	(62)	**(471)**	(57)
Profit before tax	**615**	548	**218**	553

(c) Capital expenditure

	Net book value[1]		Capital expenditure[2]		Depreciation and amortisation[3]	
	30 September 2016	31 March 2016	**30 September 2016**	30 September 2015	**30 September 2016**	30 September 2015
	£m	£m	**£m**	£m	**£m**	£m
Operating segments						
Electricity Transmission	**12,329**	11,941	**586**	514	**213**	200
By asset type:						
Property, plant and equipment	**12,093**	11,736	**540**	491	**199**	185
Intangible assets	**236**	205	**46**	23	**14**	15
	12,329	11,941	**586**	514	**213**	200

1. Represents position at 30 September 2016 and 31 March 2016 respectively.
2. Represents the additions to plant, property and equipment, and intangible assets, in the six months ended 30 September 2016 and 30 September 2015 respectively.
3. Represents the amounts recorded in the six months ended 30 September 2016 and 30 September 2015 respectively.

3. Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are important to an understanding of our financial performance and may significantly distort the comparability of financial performance between periods. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Six months ended 30 September	2016 £m	2015 £m
Included within finance costs:		
Exceptional items:		
Debt redemption costs[1]	**(367)**	-
Remeasurements		
Net (losses)/gains on derivative financial instruments[2]	**(30)**	5
Total included within profit before tax	**(397)**	5
Included within tax:		
Deferred tax credit arising on the reduction in the UK tax rate[3]	**52**	-
Tax on exceptional items	**73**	-
Tax on remeasurements	**6**	(1)
	131	(1)
Total exceptional items and remeasurements after tax	**(266)**	4
Analysis of exceptional items and remeasurements after tax:		
Exceptional items after tax	**(242)**	-
Remeasurements after tax	**(24)**	4
Total	**(266)**	4

1. In September 2016, 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 £861m (notional value of £867m) at a fair market value of £1,277m. The cash loss arising of £416m is offset by an unrealised gain resulting from the release of historic fair value hedge reserves designated against the repurchased fixed rate debt. The net position is a loss of £367m recorded in the consolidated income statement.
2. Remeasurements - net gains and 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.
3. A reduction in the UK corporation tax rate to 17% from 1 April 2020 was enacted during the year, resulting in a deferred tax credit (note 5). This credit is presented as exceptional, reflecting its nature.

4. Finance income and costs

Six months ended 30 September	**2016** **£m**	2015 £m
Interest expense on financial instruments	**(109)**	(95)
Interest expense on pension obligations	**(3)**	(7)
Unwinding of discount on provisions	**(2)**	(2)
Other interest	**(1)**	(1)
Less: interest capitalised	**41**	43
Finance costs before exceptional items and remeasurements	**(74)**	(62)
Exceptional items:		
Debt redemption costs	**(367)**	-
Remeasurements:		
Net (losses)/gains on derivative financial instruments	**(30)**	5
Exceptional items and remeasurements included within finance costs	**(397)**	5
Finance costs	**(471)**	(57)

5. Tax

The tax charge for the period, excluding tax on exceptional items and remeasurements, is £127m (2015: £112m). The effective tax rate of 20.7% (2015: 20.4%) for the period is based on the best estimate of the annual income tax rate expected for the full year, excluding tax on exceptional items and remeasurements. The effective tax rate for the year ended 31 March 2016 was 20.6%.

The Finance (No.2) Act 2015 enacted reductions in the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. A further reduction to 17% with effect from 1 April 2020 was enacted in the Finance Act 2016. 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 (note 3). This credit is presented as exceptional, reflecting its nature.

6. Fair value measurement

Carrying values and fair values of certain financial assets and liabilities
Certain of the Group's financial instruments are measured at fair value. The following table categorises these financial assets and liabilities by the valuation methodology applied in determining their fair value using the fair value hierarchy described on page 72 of the Annual Report and Accounts 2015/16.

	30 September 2016				31 March 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	**-**	**664**	**-**	**664**	-	484	-	484
	-	**664**	**-**	**664**	-	484	-	484
Liabilities								
Derivative financial instruments	**-**	**(682)**	**(150)**	**(832)**	-	(613)	(124)	(737)
Total	**-**	**(18)**	**(150)**	**(168)**	-	(129)	(124)	(253)

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.

The estimated fair value of total borrowings using market values at 30 September 2016 is £9,248m (31 March 2016: £8,168m).

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 cross currency swaps with an embedded call option and 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. In addition we also use internal developed models to value Limited Price Inflation (LPI) derivatives where the inflation curve is illiquid. Inputs include breakeven rates and inflation option premiums which are very illiquid, especially at the long-dated points of the curve.

As disclosed in note 3, gains/losses on our recurring financial instruments are recorded in remeasurements in the consolidated income statement.

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

Six months ended 30 September	**2016 £m**	2015 £m
+20 basis point change in Limited Price Inflation (LPI) market curve [1]	**(63)**	(48)
-20 basis point change in LPI market curve [1]	**61**	46

1. Tax rates applied above: Derivative financial instruments 20% (2015: 20%).

Movements in the six months to 30 September for derivative financial instruments measured using Level 3 valuation methods are presented below:

	2016 [1] £m	2015 £m
At 1 April	**(124)**	(98)
Net losses for the period	**(26)**	-
Settlements	**-**	(11)
At 30 September	**(150)**	(109)

1. Losses of £26m (2015: gain of £3m) are attributable to derivative financial instruments held at the end of the reporting period.

7. Reconciliation of net cash flow to movement in net debt

Six months ended 30 September	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	**6**	(5)
Increase in financial investments	**12**	15
Increase in borrowings and related derivatives	**(393)**	(67)
Net interest paid on the components of net debt	**519**	84
Change in net debt resulting from cash flows	**144**	27
Changes in fair value and exchange movements	**(40)**	22
Net interest charge on the components of net debt[1]	**(476)**	(95)
Movement in net debt (net of related derivative financial instruments) in the period	**(372)**	(46)
Net debt (net of related derivative financial instruments) at start of period	**(7,019)**	(6,924)
Net debt (net of related derivative financial instruments) at end of period	**(7,391)**	(6,970)

1. An exceptional charge of £367m (2015: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £416m (2015: £nil) is included in net interest paid on the components of net debt.

8. Net debt

	30 September 2016 £m	31 March 2016 £m
Cash and cash equivalents	**8**	2
Net cash and cash equivalents	**8**	2
Financial and other investments	**438**	426
Borrowings (excluding overdrafts)	**(7,669)**	(7,194)
Derivatives	**(168)**	(253)
Total net debt	**(7,391)**	(7,019)

9. Pensions and other post-employment obligations

	30 September 2016 £m	31 March 2016 £m
Present value of funded obligations	**(3,405)**	(2,781)
Fair value of plan assets	**2,970**	2,556
	(435)	(225)
Present value of unfunded obligations	**(55)**	(45)
Net liability	**(490)**	(270)
Key actuarial assumptions		
Discount rate	**2.2%**	3.3%
Rate of increase in RPI	**3.0%**	2.9%

The pension benefit obligations position, as recorded under IAS19, at 30 September 2016 was a deficit of £490m compared to £270m at 31 March 2016. The increase in the deficit of £220m primarily reflects the significant fall in discount rates which resulted in an increase in liabilities of £629m which is partially offset by asset growth of £392m. The remeasurement of net retirement benefit obligations of £237m has been reflected within the consolidated statement of comprehensive income.

10. Commitments and contingencies

At 30 September 2016 there were commitments for future capital expenditure contracted but not provided for of £1,082m (31 March 2016: £1,151m).

We also have other commitments relating primarily to energy purchase commitments, operating leases and contingencies in the form of certain guarantees and letters of credit. These commitments and contingencies are described in further detail on page 64 of the Annual Report and Accounts 2015/16.

Litigation and claims

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

11. Related party transactions

Related party transactions in the six months ended 30 September 2016 were the same in nature to those disclosed on page 65 of the Annual Report and Accounts 2015/16. There were no related party transactions in the period that have materially affected the financial position or performance of the Group.

12. Principal risks and uncertainties

When preparing the half year results the risks as reported in the 2015/16 Annual Report and Accounts (principal risks on pages 21-22) were reviewed to ensure they remained appropriate and adequate. While no significant new risks were identified, the Board concluded that the previously reported principal risk in respect of the impact of inflation and deflation on our operations should be removed. Below is a summary of our key risks as at 30 September 2016:

- Failure to identify and execute the right opportunities to deliver our growth strategy;
- Failure to secure satisfactory regulatory outcomes/failure to influence future energy policy;
- Failure to secure skills and leadership capacity (including effective succession planning) required to deliver our vision and
- strategy;
- Failure to deliver appropriate information systems and data integrity;
- We experience a catastrophic/major cyber security breach;
- We experience catastrophic asset failure; and
- Failure to effectively respond to the threats and opportunities presented by emerging technology, particularly the challenge of adapting our networks to meet the challenges of increasing distributed energy resources.

The risks and uncertainties associated with the United Kingdom exiting the EU have been considered by the Board. The Board continues to monitor the potential impact of the referendum result on the future performance and position of the Group but does not currently believe there will be a material adverse impact on the Group's results or financial position in the current financial year.

Statement of Directors' Responsibilities

The half year financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority.

The Directors confirm that the financial information has been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board and as adopted by the European Union, and that the half year report herein includes a fair review of the information required by DTR 4.2.7.

The Directors of National Grid Electricity Transmission plc are as listed in the Annual Report Accounts for the year ended 31 March 2016 with the exception of the following changes to the Board:

- Mark Ripley resigned 24 June 2016
- Christopher Bennett appointed 25 June 2016
- Chris Murray resigned 27 July 2016
- Nicola Shaw appointed 27 July 2016

By order of the Board

……………………..	……………………..
Nicola Shaw	Alan Foster
23 November 2016	23 November 2016
Chair	Chief Financial Officer

Independent review report to National Grid Electricity Transmission plc

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed National Grid Electricity Transmission plc's condensed consolidated interim financial statements (the "interim financial statements") in the half year report for the six months ended 30 September 2016 of National Grid Electricity Transmission plc. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed
The interim financial statements comprise:

- the consolidated statement of financial position as at 30 September 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report for the six months ended 30 September 2016 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.
As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors
The half year report for the six months ended 30 September 2016, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report for the six months ended 30 September 2016 in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report for the six months ended 30 September 2016 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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 a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year report for the six months ended 30 September 2016 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
23 November 2016

The maintenance and integrity of the National Grid plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.