

**NGG Finance plc**

**Annual Report and Financial Statements**

**For the year ended 31 March 2014**



# NGG Finance plc

## Strategic Report

### For the year ended 31 March 2014

The Directors present their Strategic Report on the Company for the year ended 31 March 2014.

#### Review of the business

The Company holds an investment in another National Grid plc subsidiary, NGG Finance (No 1) Limited, and obtains and provides finance to its parent company and fellow subsidiary companies via intercompany balances.

#### Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the consolidated income statement. As previously reported during March 2013, the Company issued two fixed rate securities with notional values of £1,000 million and €1,250 million as part of a public issue. The consideration received of £2,060 million was advanced to its parent company, National Grid plc on similar terms to that of the securities and for facilitating this transaction the Company receives a fee. The current year consolidated income statement reflects the first full year of this transaction.

Results, as detailed below, largely depend on finance income offset by finance costs which include foreign exchange movements on the revaluation of the euro security and intercompany loan.

#### Results

The consolidated profit for the financial year was £5,735,000 (2013: £23,184,000).

#### Financial position

The consolidated financial position is presented in the consolidated statement of financial position. Total equity at 31 March 2014 was £632,555,000 (2013: £626,820,000) comprising total assets of £2,812,134,000 (2013: £2,725,036,000) less total liabilities of £2,179,579,000 (2013: £2,098,216,000).

#### Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used refer to the Strategic Report included in National Grid's Annual Report and Accounts 2013/14, which does not form part of this report.

#### Future developments

The Directors believe the current level of trading activity as reported in the consolidated income statement will continue in the foreseeable future with no further anticipated significant movements in the statement of financial position.

Approved by the Board and signed on its behalf by:



H M Rayner  
Secretary  
6 August 2014

# **NGG Finance plc**

## **Directors' Report**

### **For the year ended 31 March 2014**

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiary ('the Group') for the year ended 31 March 2014.

#### **Future developments**

Details of future developments have been included within the Strategic Report on page 1.

#### **Dividends**

The Directors do not recommend the payment of a dividend (2013: £nil).

#### **Financial risk management**

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including credit, liquidity, interest rate and foreign exchange risks. Although the Company has a Finance Committee the financial risk management of the Company is carried out by a central Treasury department operating under policies and guidelines approved by the Directors of National Grid plc. The National Grid Finance Committee, a committee of the National Grid plc Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions.

#### **Treasury policy**

All funding is approved by the National Grid Finance Committee and the use of derivative financial instruments is controlled by policy guidelines set by the National Grid plc Board. The Treasury function will raise all the funding for the Company and its subsidiary, and manages interest rate and foreign exchange risk.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement of National Grid. As part of its business operations, National Grid is exposed to risks arising from fluctuations in interest rates and exchange rates. National Grid uses derivative financial instruments ('derivatives') to manage exposures of this type and as such they are a useful tool in reducing risk. The policy is not to use derivatives for trading purposes.

#### **Credit risk**

The Treasury function seeks to limit counterparty risk by conducting all of its banking and dealing activities with a limited number of major international banks, whose status is kept under review. No material exposure is considered to exist in respect of intercompany loans.

#### **Liquidity risk**

The Company finances its operations through a combination of retained profits, new share issues, external bonds and intercompany loans. This is to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

#### **Interest rate cash flow risk**

The Company has both interest bearing intercompany assets and interest bearing external bonds and in the prior year interest bearing intercompany liabilities. To the extent that the intercompany loan agreements are entered into, the exposure to interest rate risk arises on such loans on which interest is charged based upon sterling LIBOR. The external bonds pay a fixed rate of interest.

# NGG Finance plc

## Directors' Report (continued)

For the year ended 31 March 2014

### Foreign exchange risk

To the extent that external bonds and intercompany loan agreements are entered into in currencies different to that of the functional currency, there is an exposure to movements in exchange rates. The Company principally has euro denominated external bonds and intercompany loan assets as at the reporting date.

### Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were:

A J Agg	(Resigned 31 May 2013)
D C Bonar	
M C Cooper	
E D Fraser	
S C Humphreys	(Appointed 1 June 2013)
A S Wiltshire	

### Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance for each Director.

### Going concern

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Disclosure of information to auditors

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

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements, including the consolidated financial statements and the Company financial statements, the Strategic Report and Directors' Report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice, UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, 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 Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis for that period.

# NGG Finance plc

## Directors' Report (continued)

For the year ended 31 March 2014

### Statement of Directors' Responsibilities (continued)

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as issued by the IASB and IFRS adopted by the EU and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiary and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names are listed on page 3, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic and Directors' Report includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces: and
- they consider that the Annual Report and Financial Statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board and signed on its behalf by:



**H M Rayner**  
Secretary  
6 August 2014

**Registered office:**  
1-3 Strand  
London  
WC2N 5EH

**Registered in England and Wales**  
**Company registration number: 4220381**

# **Independent auditors' report**

## **to the Members of NGG Finance plc**

### **Report on the financial statements**

#### **Our opinion**

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2014 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 (EU);
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); 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.

This opinion is to be read in the context of what we say in the remainder of this report.

#### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in note Note 1 to the consolidated financial statements, the Group, in addition to applying IFRSs as adopted by the EU, 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 Group financial statements and Company financial statements (the "financial statements"), which are prepared by NGG Finance plc, comprise:

- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of financial position as at 31 March 2014 and Company balance sheet as at 31 March 2014;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements and the notes to the Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements comprises applicable law and IFRSs as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Company financial statements comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice – UK GAAP).

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements 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.

**Independent auditors' report**  
**to the Members of NGG Finance plc (continued)**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion 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.

**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.

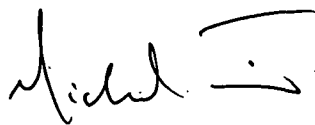
**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the Directors are responsible for the preparation of the Group and Company 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 Group and Company financial statements in accordance with applicable law and 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.



**Michael Timar (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
London  
6 August 2014

# NGG Finance plc

## Consolidated income statement

For the years ended 31 March

	Notes	2014 £'000	2013 £'000
Operating costs		(30)	(23)
<b>Operating loss</b>	4	<u>(30)</u>	<u>(23)</u>
Finance income	5	130,595	46,740
Finance costs	5	(123,172)	(21,284)
<b>Profit before tax</b>		<u>7,393</u>	<u>25,433</u>
Taxation	6	(1,658)	(2,249)
<b>Profit for the year</b>		<u><u>5,735</u></u>	<u><u>23,184</u></u>

The Company has no recognised gains and losses other than the profit for the year stated above and therefore no consolidated statement of comprehensive income has been presented.



NGG Finance plc

Consolidated statement of changes in equity

For the years ended 31 March

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2012	1,925	431,325	170,386	603,636
Profit for the year	-	-	23,184	23,184
At 31 March 2013	1,925	431,325	193,570	626,820
Profit for the year	-	-	5,735	5,735
At 31 March 2014	<b>1,925</b>	<b>431,325</b>	<b>199,305</b>	<b>632,555</b>

NGG Finance plc

Consolidated statement of financial position

As at 31 March

	Notes	2014 £'000	2013 £'000
<b>Non-current assets</b>			
Financial investments	7	2,022,000	2,042,414
Total non-current assets		<u>2,022,000</u>	<u>2,042,414</u>
<b>Current assets</b>			
Financial investments	7	790,056	682,532
Cash at bank and in hand		78	90
Total current assets		<u>790,134</u>	<u>682,622</u>
<b>Total assets</b>		<u>2,812,134</u>	<u>2,725,036</u>
<b>Current liabilities</b>			
Borrowings	10	(155,240)	(52,862)
Trade and other payables	9	(30)	(22)
Amounts owed to fellow subsidiary undertakings		(2,034)	(2,439)
Total current liabilities		<u>(157,304)</u>	<u>(55,323)</u>
<b>Non-current liabilities</b>			
Borrowings	10	(2,022,000)	(2,042,414)
Deferred tax liabilities	11	(275)	(479)
Total non-current liabilities		<u>(2,022,275)</u>	<u>(2,042,893)</u>
<b>Total liabilities</b>		<u>(2,179,579)</u>	<u>(2,098,216)</u>
<b>Net assets</b>		<u>632,555</u>	<u>626,820</u>
<b>Equity</b>			
Called up share capital	12	1,925	1,925
Share premium account		431,325	431,325
Retained earnings		199,305	193,570
<b>Total equity</b>		<u>632,555</u>	<u>626,820</u>

The consolidated financial statements set out on pages 7 to 20, were approved by the Board of Directors on 6 August 2014 and were signed on its behalf by:



**E D Fraser**  
Director

**NGG Finance plc**  
**Consolidated cash flow statement**  
**For the years ended 31 March**

	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>		
Total operating loss	(30)	(23)
Adjustments for:		
Increase in amounts owed to fellow subsidiary undertakings	30	23
Cash flows generated from operations	<u>-</u>	<u>-</u>
<b>Net cash flow from operating activities</b>	<u>-</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
Increase in amounts owed by parent company	-	(2,059,579)
Decrease in amounts owed to a fellow subsidiary undertaking	(3)	-
<b>Net cash used in investing activities</b>	<u>(3)</u>	<u>(2,059,579)</u>
<b>Cash flows from financing activities</b>		
Proceeds received from loans	-	2,059,579
Interest paid	(1)	(1)
<b>Net cash flow (used in)/from financing activities</b>	<u>(1)</u>	<u>2,059,578</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(4)</b>	<b>(1)</b>
Exchange movements	(8)	4
Net cash and cash equivalents at start of year	<u>90</u>	<u>87</u>
<b>Net cash and cash equivalents at end of year</b>	<u><b>78</b></u>	<u><b>90</b></u>

# NGG Finance plc

## Notes to the consolidated financial statements

For the year ended 31 March 2014

### 1 Accounting policies

#### (a) Basis of preparation of consolidated financial statements under IFRS

The Company's principal activities involve obtaining and providing finance to its parent company and fellow National Grid subsidiary undertakings via intercompany balances. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

These consolidated financial statements have been prepared on the going concern basis and 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 European Union (EU). They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2014 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS regulation. The 2013 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis and are presented in pounds sterling, which is also the functional currency of the Company.

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

The Board of Directors of NGG Finance plc is the Company's chief operating decision making body (as defined by IFRS 8). The Directors consider that the Company has one operating segment and therefore no further detailed segmental analysis is deemed appropriate. This is based on the information the Board of Directors uses internally for the purpose of evaluating performance of operations. The performance of operations is assessed principally on the basis of operating profit.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary, NGG.Finance (No 1) Limited.

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 subsidiary into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany 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 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

1 Accounting policies (continued)

(d) Taxation

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 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

1 Accounting policies (continued)

(e) Financial instruments

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

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.

Borrowings, which include interest-bearing 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.

An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all of 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.

(f) Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term investments with a maturity of less than three months that are readily convertible to cash.

2 New IFRS accounting standards and interpretations adopted in 2013/14

During the year ended 31 March 2014, with the exception of disclosures required by IFRS 13 'Fair value measurements' the Company has not adopted any new IFRS, IAS or amendments issued by IASB, or interpretations issued by the IFRS Interpretations Committee, which have had a material impact on the Company's consolidated financial statements. The additional disclosures required by IFRS 13 are included in note 8.

Other standards, interpretations and amendments issued by the IASB and IFRIC that have not had a material impact on the Company's consolidated results or assets and liabilities are:

- IFRS 10 'Consolidated financial statements';
- IFRS 11 'Joint arrangements';
- IFRS 12 'Disclosure of interests in other entities';
- IAS 19 (revised) 'Employee benefits';
- amendments to IAS 27 'Separate financial statements' and IAS 28 'Investments in associates and joint ventures' as a result of the adoption of the above standards;
- amendment to IAS 1 'Presentation of financial statements'; and
- amendments to IFRS 7 'Financial instruments: 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 on financial instruments. The IASB is completing IFRS 9 in phases and the Company is evaluating the impact of the standard as it develops. It is currently expected that the standard will be required to be adopted by the Company on 1 April 2018. We are currently assessing the likely impact of this standard on the Company's consolidated financial statements.

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company's consolidated financial statements.

**NGG Finance plc**

**Notes to the consolidated financial statements (continued)**

**For the year ended 31 March 2014**

**3 Directors and employees**

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid plc subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 4 Directors (2013: 4) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2013: none).

**4 Operating loss**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating loss is stated after charging:</b>		
Audit fees	26	14
Fees payable to the Company's auditor and its associates for other services:		
Tax services	4	9
	4	9

**5 Finance income and costs**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest income on financial investments held at amortised cost	108,852	29,523
Exchange gains on revaluation of foreign currency denominated borrowings and bank accounts	21,743	17,217
Interest income and similar income	130,595	46,740
Interest expense and other finance costs (see below)	(123,172)	(21,284)
<b>Net finance income</b>	<b>7,423</b>	<b>25,456</b>

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest expense and other finance costs comprise the following:		
Interest expense on financial liabilities held at amortised cost	(101,439)	(4,061)
Exchange losses on revaluation of foreign currency denominated intercompany loan	(21,725)	(17,223)
Exchange losses on revaluation of foreign currency denominated bank accounts	(8)	-
	<b>(123,172)</b>	<b>(21,284)</b>

# NGG Finance plc

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

### 6 Taxation

#### Tax charged to the income statement

	2014 £'000	2013 £'000
<b>Current tax:</b>		
UK corporation tax	1,862	2,439
<b>Total current tax</b>	1,862	2,439
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(162)	(169)
Deferred tax impact of change in UK tax rate	(42)	(21)
<b>Total deferred tax</b>	(204)	(190)
<b>Total tax charge</b>	1,658	2,249

The tax charge for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £'000	2013 £'000
Profit before tax	7,393	25,433
Profit before tax multiplied by UK corporation tax rate of 23% (2013: 24%)	1,700	6,104
Effect of:		
Taxation on transfer pricing adjustments	-	(3,834)
Deferred tax impact of change in UK tax rate	(42)	(21)
<b>Total tax charge for the year</b>	1,658	2,249

#### Taxation as a percentage of profit before tax

	%	%
Effective income tax rate	22.4	8.8

#### Factors that may affect future tax charges

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% from 1 April 2015.

The reduction in the UK corporation tax rate to 20% from 1 April 2015 has been enacted and deferred tax balances have been calculated at this rate.

### 7 Financial investments

	2014 £'000	2013 £'000
<b>Non-current</b>		
Loans owed by parent company	2,022,000	2,042,414
<b>Current</b>		
Loans owed by parent company	790,056	682,532

The fair value of loans owed by parent company approximates to their book value.



Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

**8 Financial risk factors**

The activities of the Company expose it to a variety of financial risks including currency risk, interest rate risk, credit risk, liquidity risk and capital risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance of these risks.

Although the Company has a Finance Committee risk management related to financing activities is carried out by a National Grid central treasury department under policies approved by the National Grid Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The National Grid 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 and capital risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Company has exposure to the following risks, which are described in more detail below:

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

**(a) Currency risk**

The Company can obtain financing in various currencies and is exposed to foreign exchange risk arising from these, primarily with respect to the Euro.

The following table sets out the net asset position by currency:

	2014				2013			
	Sterling £'000	Euro £'000	US dollar £'000	Total £'000	Sterling £'000	Euro £'000	US dollar £'000	Total £'000
Cash and cash equivalents	-	-	78	78	1	4	85	90
Financial investments	1,737,746	1,074,310	-	2,812,056	1,674,893	1,050,053	-	2,724,946
Borrowings	(1,104,057)	(1,073,003)	(180)	(2,177,240)	(1,045,026)	(1,050,053)	(197)	(2,095,276)
Trade and other liabilities	(2,339)	-	-	(2,339)	(2,940)	-	-	(2,940)
<b>Net asset position</b>	<b>631,350</b>	<b>1,307</b>	<b>(102)</b>	<b>632,555</b>	<b>626,928</b>	<b>4</b>	<b>(112)</b>	<b>626,820</b>

**(b) Interest rate risk**

Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company 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).

# NGG Finance plc

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

### 8 Financial risk factors (continued)

#### (b) Interest rate risk (continued)

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk:

	2014 £'000	2013 £'000
<b>Fixed interest rate borrowings</b>		
In one year or less	103,708	3,600
In greater than five years	2,022,000	2,042,414
	<u>2,125,708</u>	<u>2,046,014</u>
<b>Non-interest bearing</b>	51,532	49,262
	<u>2,177,240</u>	<u>2,095,276</u>

The following table sets out the net asset position by interest rate risk:

	2014				2013			
	Fixed-rate £'000	Floating -rate £'000	Other £'000	Total £'000	Fixed-rate £'000	Floating- rate £'000	Other £'000	Total £'000
Cash and cash equivalents	-	78	-	78	-	90	-	90
Financial investments	2,128,906	683,150	-	2,812,056	2,046,014	678,932	-	2,724,946
Borrowings	(2,125,708)	-	(51,532)	(2,177,240)	(2,046,014)	-	(49,262)	(2,095,276)
Trade and other liabilities	-	-	(2,339)	(2,339)	-	-	(2,940)	(2,940)
<b>Net asset position</b>	<u>3,198</u>	<u>683,228</u>	<u>(53,871)</u>	<u>632,555</u>	<u>-</u>	<u>679,022</u>	<u>(52,202)</u>	<u>626,820</u>

#### (c) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to intercompany receivables.

As at 31 March 2014 and 2013, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non performance by these counterparties. There are netting agreements in place with some counterparties: these had no effect on the credit exposure.

The Company does not believe there is any credit risk in relation to the amounts owed by the parent company.

NGG Finance plc

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

8 Financial risk factors (continued)

(d) Liquidity risk

The Company determines its liquidity requirements by the use of both short- 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. The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

	Less than 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	More than 3 years £'000	Total £'000
<b>At 31 March 2014</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	(51,352)	-	-	(2,032,746)	(2,084,098)
Interest payments on borrowings <sup>(i)</sup>	(100,142)	(100,233)	(100,019)	(5,761,470)	(6,061,864)
Other non-interest bearing liabilities	(30)	-	-	-	(30)
<b>Total as at 31 March 2014</b>	<b>(151,524)</b>	<b>(100,233)</b>	<b>(100,019)</b>	<b>(7,794,216)</b>	<b>(8,145,992)</b>
<b>At 31 March 2013</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	(49,262)	-	-	(2,054,617)	(2,103,879)
Interest payments on borrowings <sup>(i)</sup>	(101,071)	(101,071)	(101,163)	(5,917,461)	(6,220,766)
Other non-interest bearing liabilities	(22)	-	-	-	(22)
<b>Total as at 31 March 2013</b>	<b>(150,355)</b>	<b>(101,071)</b>	<b>(101,163)</b>	<b>(7,972,078)</b>	<b>(8,324,667)</b>

<sup>(i)</sup> 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.

(e) Capital risk

The Company's objective when managing capital is to safeguard our ability to continue as a going concern 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 maintain or adjust the capital structure as appropriate in order to achieve these objectives.

# NGG Finance plc

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

### 9 Trade and other payables

	2014 £'000	2013 £'000
Other payables	30	22

### 10 Borrowings

The following table analyses the total borrowings:

	2014 £'000	2013 £'000
<b>Current:</b>		
Amounts owed to parent company	180	197
Amounts owed to a fellow subsidiary undertaking	51,352	49,065
Bonds	103,708	3,600
	155,240	52,862
<b>Non-current</b>		
Bonds	2,022,000	2,042,414
<b>Total</b>	2,177,240	2,095,276
Total borrowings are repayable as follows:		
Less than 1 year	155,240	52,862
More than 5 years - other than by instalments	2,022,000	2,042,414
	2,177,240	2,095,276

The fair value of borrowings at 31 March 2014 was £2,237,175,000 (2013: £2,097,588,000). Where market values were available, fair value of borrowings (Level 1) was £2,185,643,000 (2013: £2,048,325,000). Where market values were not available, fair value of borrowings (Level 2) was £51,532,000 (2013: £49,263,000). The notional amount at maturity of the debt portfolio is £2,084,277,000 (2013: £2,103,879,000).

The Company has in issue two fixed rate bonds as follows:

			First callable date
Issuer	Description of instrument (original notional amount)	Maturity	
NGG Finance plc	GBP £1,000 million 5.625% Fixed Rate Instrument	2073	2025
NGG Finance plc	EURO 1,250 million 4.25% Fixed Rate Instrument	2076	2020

### 11 Deferred tax liabilities

	2014 £'000	2013 £'000
Other net temporary differences – financial instruments	275	479
<b>Deferred tax liability</b>	275	479
At 1 April	479	669
Credited to income statement	(204)	(190)
<b>At 31 March</b>	275	479

At the reporting date there were no material current deferred tax assets or liabilities (2013: £nil)

# NGG Finance plc

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2014

### 12 Called up share capital

	2014 £'000	2013 £'000
<b>Allotted, called up and fully paid</b>		
1,925,000 ordinary shares of £1 each	<u>1,925</u>	<u>1,925</u>

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

### 13 Related party transactions and ultimate parent company

The Company has entered into a number of financing transactions with its parent company, National Grid plc during the year. These include the following material transactions:

- The Company's financial investments consist of loans receivable from National Grid plc. The non-current loans consist of a euro loan and sterling loan both of which have fixed interest rates and repayment dates in 2020 and 2025 respectively. The current loan is repayable on demand and bears interest at commercial rates. Details of the amounts of investment income and outstanding balances at 31 March can be found in notes 5 and 7 to the consolidated financial statements
- As previously reported, the Company had borrowings from National Grid plc all of which were payable on demand and included interest bearing and non-interest bearing loans. During February 2013 the majority of these borrowings were set off against the loans receivable. Where interest was charged it was on commercial rates and during the year ended 31 March 2013 the Company has charged £413,000 to the income statement. Details of the loan balances at 31 March can be found in note 10 to the consolidated financial statements.

In addition to its transactions and balances with National Grid plc, the Company also has a non interest bearing loan which is payable on demand with a fellow National Grid subsidiary undertaking, National Grid Holdings One plc details of which can be found in note 10 to the consolidated financial statements.

There were no related party transactions with companies where not all of the voting rights are held by National Grid plc and its subsidiary undertakings.

The ultimate parent and controlling company for the year was National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

**NGG Finance plc**  
**Company balance sheet**  
**As at 31 March**

	Notes	2014 £'000	2013 £'000
<b>Fixed assets</b>			
Fixed asset investment	3	-	-
<b>Current assets</b>			
Debtors: amounts falling due within one year	4	790,056	682,532
Debtors: amounts falling due after more than one year	4	2,022,000	2,042,414
Cash at bank and in hand		78	90
		<u>2,812,134</u>	<u>2,725,036</u>
<b>Creditors: amounts falling due within one year</b>	5	<b>(157,304)</b>	<b>(55,323)</b>
<b>Net current assets</b>		<u>2,654,830</u>	<u>2,669,713</u>
<b>Total assets less current liabilities</b>		<u>2,654,830</u>	<u>2,669,713</u>
<b>Creditors: amounts falling due after more than one year</b>	5	<b>(2,022,000)</b>	<b>(2,042,414)</b>
<b>Provisions for liabilities</b>			
Deferred taxation	7	(275)	(479)
<b>Net assets</b>		<u>632,555</u>	<u>626,820</u>
<b>Capital and reserves</b>			
Called up share capital	8	1,925	1,925
Share premium account	9	431,325	431,325
Profit and loss account	9	199,305	193,570
<b>Total shareholders' funds</b>	10	<u>632,555</u>	<u>626,820</u>

The notes on pages 22 to 25 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 6 August 2014 and were signed on its behalf by:



**E D Fraser**  
 Director

# NGG Finance plc

## Notes to the Company financial statements

For the year ended 31 March 2014

### 1 Company accounting policies

#### (a) Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared on a going concern basis and in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on a historical cost basis and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2013 comparative financial information has also been prepared on this basis.

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 exemptions in FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the National Grid plc group of companies.

In accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

The 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.

#### (b) Fixed asset investments

Investments held as fixed assets, which represent investments in subsidiary undertakings, are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

#### (c) 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 reporting date.

Deferred taxation is provided in full on timing differences which result in an obligation at the reporting 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 reporting 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.

# NGG Finance plc

## Notes to the Company financial statements (continued)

For the year ended 31 March 2014

### 1 Company accounting policies (continued)

#### (d) Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

#### (e) Financial instruments

The Company's accounting policies under UK GAAP, namely FRS 25 'Financial Instruments: Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 29 'Financial Instruments: Disclosures', 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, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in note 1 to the consolidated financial statements. The Company is taking the exemption for financial instrument disclosures, because IFRS 7 disclosures are given in note 8 to the consolidated financial statements.

### 2 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

During the year there were 4 Directors (2013: 4) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2013: none).

### 3 Fixed asset investment

	Shares in a subsidiary undertaking £'000
<b>Cost:</b>	
At 1 April 2013 and 31 March 2014	1
<b>Provision:</b>	
At 1 April 2013 and 31 March 2014	1
<b>Net book value:</b>	
At 1 April 2013 and 31 March 2014	-

The fixed asset investment as at 31 March 2014 represents 100% of the ordinary share capital of NGG Finance (No 1) Limited, a company registered in England and Wales which is a finance company.



# NGG Finance plc

## Notes to the Company financial statements (continued)

For the year ended 31 March 2014

### 4 Debtors

	2014 £'000	2013 £'000
<b>Amounts falling due within one year</b>		
Amounts owed by parent company	<u>790,056</u>	<u>682,532</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed by parent company	<u>2,022,000</u>	<u>2,042,414</u>

### 5 Creditors

	2014 £'000	2013 £'000
<b>Amounts falling due within one year</b>		
Borrowings (see note 6)	155,240	52,862
Amounts owed to a fellow subsidiary undertaking	2,034	2,439
Other creditors	<u>30</u>	<u>22</u>
	<u>157,304</u>	<u>55,323</u>
<b>Amounts falling due after more than one year</b>		
Borrowings (see note 6)	<u>2,022,000</u>	<u>2,042,414</u>

### 6 Borrowings

The following table analyses the total borrowings, excluding bank overdrafts:

	2014 £'000	2013 £'000
<b>Current:</b>		
Amounts owed to immediate parent company	180	197
Amounts owed to a fellow subsidiary undertaking	51,352	49,065
Bonds	<u>103,708</u>	<u>3,600</u>
	<u>155,240</u>	<u>52,862</u>
<b>Non-current</b>		
Bonds	<u>2,022,000</u>	<u>2,042,414</u>
<b>Total</b>	<u>2,177,240</u>	<u>2,095,276</u>
<b>Total borrowings are repayable as follows:</b>		
Less than 1 year	155,240	52,862
More than 5 years		
Other than by instalments	<u>2,022,000</u>	<u>2,042,414</u>
	<u>2,177,240</u>	<u>2,095,276</u>

The notional amount of borrowings outstanding as at 31 March 2014 was £2,084,277,000 (2013: £2,103,879,000).

# NGG Finance plc

## Notes to the Company financial statements (continued)

For the year ended 31 March 2014

### 7 Provisions for liabilities

	2014 £'000	2013 £'000
<b>Deferred taxation</b>		
Other short term timing differences	275	479
<b>Deferred tax liability</b>	275	479
At 1 April	479	669
Credited to profit and loss account	(204)	(190)
<b>At 31 March</b>	275	479

### 8 Called up share capital

	2014 £'000	2013 £'000
<b>Allotted, called up and fully paid</b>		
1,925,000 ordinary shares of £1 each	1,925	1,925
	1,925	1,925

### 9 Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2012	1,925	431,325	170,386	603,636
Profit for the year	-	-	23,184	23,184
At 31 March 2013	1,925	431,325	193,570	626,820
Profit for the year	-	-	5,735	5,735
<b>At 31 March 2014</b>	<b>1,925</b>	<b>431,325</b>	<b>199,305</b>	<b>632,555</b>

As the Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006, no separate statement of recognised gains and losses has been presented.

### 10 Reconciliation of movements in total shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	5,735	23,184
Net increase in shareholders' funds	5,735	23,184
Opening shareholders' funds	626,820	603,636
<b>Closing shareholders' funds</b>	<b>632,555</b>	<b>626,820</b>

### 11 Ultimate parent company

The ultimate and immediate parent and controlling company is National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. This company is registered in England and Wales.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.