

NATIONAL GRID PLC
Form 20-F
June 05, 2015
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 March 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-14958

NATIONAL GRID PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1-3 Strand, London WC2N 5EH, England

(Address of principal executive offices)

Alison Kay

011 44 20 7004 3000

Facsimile No. 011 44 20 7004 3004

Group General Counsel and Company Secretary

Edgar Filing: NATIONAL GRID PLC - Form 20-F

National Grid plc

1-3 Strand London WC2N 5EH, England

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange
Preferred Stock (\$100 par value-cumulative):	
3.90% Series	The New York Stock Exchange
3.60% Series	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 March 2015 was

Ordinary Shares of 11 17/43 pence each 3,891,691,900

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

Edgar Filing: NATIONAL GRID PLC - Form 20-F

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

This constitutes the annual report on Form 20-F of National Grid plc (the Company) in accordance with the requirements of the US Securities and Exchange Commission (the SEC) for the year ended 31 March 2015 and is dated 5 June 2015. Details of events occurring subsequent to the approval of the annual report on 20 May 2015 are summarised in section Further Information which forms a part of this Form 20-F . The content of the Group s website (www.nationalgrid.com/uk) should not be considered to form part of this annual report on Form 20-F.

Table of Contents

Form 20-F Cross Reference Table

Item	Form 20-F caption	Location in the document	Page(s)
1	Identity of directors, senior management and advisors	Not applicable	
2	Offer statistics and expected timetable	Not applicable	
3	Key Information 3A Selected financial data	<p>Additional Information Summary consolidated financial information 190-191</p> <p>Strategic Report Financial review 20-23</p> <p>Financial Statements Unaudited commentary on consolidated statement of financial position Net debt 91</p> <p>Financial Statements Unaudited commentary on the consolidated cash flow statement Net debt 93</p> <p>Additional Information Other unaudited financial information Reconciliations of adjusted profit measures 186</p> <p>Additional Information Shareholder information Exchange rates 180</p> <p>Exchange Rates Further Information</p>	
	3B Capitalization and indebtedness	Not applicable	
	3C Reasons for the offer and use of proceeds	Not applicable	
	3D Risk Factors	Additional Information The business in detail Risk factors	173-176
4	Information on the company 4A History and development of the company	Want more information or help?	196-
		Additional Information The business in detail Key milestones	Back cover 164
		Strategic Report Chief Executive s review	4-5
		Strategic Report Our vision and strategy	14-15
		Strategic Report Operating environment	6-7
		Additional Information Shareholder information Articles of Association	177-178
		Financial Statements Consolidated statement of financial position Unaudited commentary on consolidated statement of financial position Property, plant and equipment	91
		Financial Statements Consolidated cash flow statement Unaudited commentary on the consolidated cash flow statement Net capital expenditure	93

Edgar Filing: NATIONAL GRID PLC - Form 20-F

	Additional Information Other unaudited financial information Commentary on consolidated financial statements for the year ended 31 March 2014	187-189
	Financial Statements Notes to the consolidated financial statements 2. Segmental analysis (c) Capital expenditure, depreciation and amortisation	98
	Strategic Report How our strategy creates value	15
4B Business overview	Additional Information The business in detail Where we operate	165
	Strategic Report Operating environment	6-7
	Strategic Report What we do Electricity ;	8-9

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		What we do Gas ;	10-11
		Our Business model ;	12-13
		Our vision and strategy	14-19
		and	
		How our strategy creates value	15
		Strategic Report Principal operations	27-36
		Strategic Report Delivering our strategy key performance indicators	16-19
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis and unaudited commentary on the results of our principal operations by segment	96-100
		Additional Information Internal control and risk factors Risk factors Infrastructure and IT systems We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data, technology or a lack of supply ; Law and Regulation Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us ; and Customers and counterparties Customers and counterparties may not perform their obligations	174
		Additional Information The business in detail UK regulation ; US regulation ; and Summary of US price controls and rate plans	174
		Strategic Report Our Business model	176
4C	Organizational structure	Financial Statements Notes to the consolidated financial statements 32. Subsidiary undertakings, joint ventures and associates Principal subsidiary undertakings	166-172
4D	Property, plants and equipment	Additional Information The business in detail Where we operate and	166-172
		Property, plant and equipment	185
		Strategic Report What we do Electricity ; What we do Gas ; and	8-11
		Our Business model ;	12-13
		Strategic Report Principal operations	27-36
		Strategic Report Our vision and strategy Embed sustainability and Drive growth	14
		Strategic Report Operating environment Changing energy mix ; Energy policy ; Regulation ; and Innovation and technology	6-7
		Financial Statements Consolidated statement of financial position Unaudited commentary on consolidated statement of financial position Property, plant and equipment	91

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Additional Information Other disclosures	Property, plant and equipment	185
Financial Statements Notes to the consolidated financial statements	11.	115-116

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		Property, plant and equipment	
		Financial Statements Notes to the consolidated financial statements 19.	123-125
		Borrowings	
4A		Additional Information Other disclosures Unresolved SEC staff comments	185
	Unresolved staff comments		
5			
	Operating and financial review and prospects		
	5A Operating results	Strategic Report Financial review	20-23
		Strategic Report Operating environment	6-7
		Additional Information The business in detail UK regulation ; US regulation ; and Summary of US price controls and rate plans	166-172
		Strategic Report Principal operations	27-36
		Financial Statements Consolidated income statement Unaudited commentary on the consolidated income statement	87
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis Unaudited commentary on the results of our principal operations by segment	99
		Additional Information Other unaudited financial information	186-189
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (d) Currency risk	144-145
	5B Liquidity and capital resources	Strategic Report Financial review	20-23
		Corporate Governance Going concern	54
		Financial Statements Consolidated cash flow statement	92-93
		Additional Information Internal control and risk factors Risk factors Financing and liquidity An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses	176
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis Unaudited commentary on the results of our principal operations by segment	99
		Financial Statements Notes to the consolidated financial statements 26. Net debt	134-135
		Financial Statements Notes to the consolidated financial statements 19. Borrowings	123-125
		Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
			171

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Additional Information The business in
detail FERC Short-term borrowing
authorisation

Additional Information Shareholder 180-181
information Material interests in shares

Material Interests in Shares and Material Further Information

iii

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		interest in American Depositary Shares	
	5C Research and development, patents and licenses, etc.	Additional Information Other disclosures Research and development	185
	5D Trend information	Strategic Report Financial review	20-23
		Strategic Report Principal operations	27-36
		Strategic Report Operating environment	6-7
	5E Off-balance sheet arrangements	Financial Statements Unaudited commentary on consolidated statement of financial condition Off balance sheet items	91
	5F Tabular disclosure of contractual obligations	Financial Statements Notes to the consolidated financial statements 27. Commitments and contingencies	136
	5G Safe Harbor	Important notice	1
		Want more information or help? Cautionary statement	Back cover
6			
	Directors, senior management and employees		
	6A Directors and senior management	Corporate Governance Our Board	43
		Additional Information Shareholder Information Board biographies	178-179
	6B Compensation	Corporate Governance Directors Remuneration Report	60-75
		Financial Statements Notes to the consolidated financial statements 3. Operating costs (c) Key management compensation	102
		Financial Statements Notes to the consolidated financial statements 22. Pensions and other post-retirement benefits	126-129
		Financial Statements Notes to the consolidated financial statements 29. Actuarial information on pensions and other post-retirement benefits	137-140
		Share Ownership	Further Information
	6C Board practices	Corporate Governance Our Board	43-49
		Additional Information Shareholder information	177-179
		Additional Information Other disclosures Conflict of interest ; and Director s indemnity	184-185
		Corporate Governance Our Board and its committees Audit Committee ; Finance Committee ; Safety, Environment and Health Committee ; Nominations Committee ; Executive Committee ; Management committees	49-59
		Corporate Governance Directors Remuneration Report Annual statement from the Remuneration Committee chairman	60-61
		Corporate Governance Directors Remuneration Report Approved policy table Executive Directors	62-65
			65

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Directors	
Remuneration Report Approved policy table	
Non-executive Directors (NEDs)	
Corporate Governance Directors	67
Remuneration Report Service contracts	

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		and policy on payment for loss of office and Dates of Directors service contracts/letters of appointment	
	6D Employees	Financial Statements Notes to the consolidated financial statements 3. Operating costs (b) Number of employees	101
		Additional Information Other disclosures Employees	185
	6E Share ownership	Corporate Governance Directors Remuneration Report Shareholding requirement and Differences in remuneration policy for all employees	66
		Corporate Governance Directors Remuneration Report Statement of Directors shareholdings and share interests (audited information)	72-73
		Corporate Governance Directors Remuneration Report Annual report on remuneration	69-75
		Additional Information Other disclosures All-employee share plans Share ownership	184 Further Information
7			
	Major shareholders and related party transactions		
	7A Major shareholders	Additional Information Shareholder information Material interests in shares	180-181
		Material interests in shares and Material interest in American Depository Shares	Further Information
	7B Related party transactions	Financial Statements Notes to the consolidated financial statements 28. Related party transactions	137
	7C Interests of experts and counsel	Not applicable	
8			
	Financial information		
	8A Consolidated statements and other financial information	Financial Statements Report of Independent Registered Public Accounting Firm Audit opinion for Form 20-F	85
		Financial Statements Notes to the consolidated financial statements 1. Basis of preparation and recent accounting developments	94-96
		Financial Statements Consolidated income statement ; Consolidated statement of comprehensive income ; Consolidated statement of changes in equity ; Consolidated statement of financial position ; and Consolidated cash flow statement	86-93
		Financial Statements Notes to the consolidated financial statements analysis of items in the primary statements	94-135

Edgar Filing: NATIONAL GRID PLC - Form 20-F

	Financial Statements Notes to the consolidated financial statements supplementary information	136-158
8B Significant changes	Strategic Report Chairman s statement Subsequent Events	2-3 Further Information

v

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
9	The offer and listing		
	9A Offer and listing details	Additional Information Shareholder information Exchange Rates , Share price , Price History	180-182 Further Information
	9B Plan of distribution	Not applicable	
	9C Markets	Additional Information Shareholder information Share price	181-182
	9D Selling shareholders	Not applicable	
	9E Dilution	Not applicable	
	9F Expenses of the issue	Not applicable	
10			
	Additional information		
	10A Share capital	Not applicable	
	10B Memorandum and articles of association	Additional Information Shareholder Information Articles of Association Additional Information	177-178 184
		Other disclosures Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards	
		Additional Information Shareholder information Share capital	181
	10C Material contracts	Additional Information Other disclosures Material contracts	185
	10D Exchange controls	Additional Information Shareholder information Exchange controls	180
	10E Taxation	Additional Information Shareholder information Taxation	182-183
	10F Dividends and paying agents	Not applicable	
	10G Statement by experts	Not applicable	
	10H Documents on display	Additional Information Shareholder information Documents on display	180
	10I Subsidiary information	Not applicable	
11			
	Quantitative and qualitative disclosures about market risk		
	11A Quantitative information about market risk	Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (a) Credit risk ; (b) Liquidity risk ; (c) Interest rate risk ; (d) Currency risk ; (e) Commodity risk ; (f) Capital risk management ; and (g) Fair value analysis	141-148
		Strategic Report Financial review	20-23
	11B Qualitative information about market risk	Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (a) Credit risk ;	141-148

Edgar Filing: NATIONAL GRID PLC - Form 20-F

(b) Liquidity risk ; (c) Interest rate risk ; (d)
Currency risk ; (e) Commodity risk ; (f)
Capital risk management ; and (g) Fair value
analysis

Strategic Report Financial review

20-23

vi

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		Additional Information Internal Control and Risk factors Risk Factors	173-176
12	Description of securities other than equity securities		
	12A Debt securities	Not applicable	
	12B Warrants and rights	Not applicable	
	12C Other securities	Not applicable	
	12D American depositary shares	Additional Information Shareholder information Description of securities other than equity securities: depositary fees and charges	180
		Additional Information Shareholder information Depository payments to the Company	180
		Additional Information Definitions and glossary of terms	192-195
13		Not applicable	
	Defaults, dividend arrearages and delinquencies		
14		Not applicable	
	Material modifications to the rights of security holders and use of proceeds		
15		Additional Information Internal control and risk factors Disclosure controls and internal control over financial reporting	173
	Controls and procedures		
16		Corporate Governance Audit Committee Experience	51
	16A Audit committee financial expert		
	16B Code of ethics	Additional Information Other disclosures Code of Ethics	184
	16C Principal accountant fees and services	Corporate Governance Audit Committee External audit	52
		Financial Statements Notes to the consolidated financial statements 3. Operating costs (e) Auditors remuneration	102
	16D Exemptions from the listing standards for audit committees	Not applicable	
	16E Purchases of equity securities by the issuer and affiliated purchasers	Not applicable	
	16F Change in registrant s certifying accountant	Not applicable	
	16G Corporate governance	Additional Information Other disclosures Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards	184
	16H Mine safety disclosure	Not applicable	
17		Not applicable	
	Financial statements		
18		Financial Statements Company accounting policies	159

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial statements

Financial Statements Notes to the consolidated financial statements 1. Basis of preparation and recent accounting developments	94-96
Financial Statements Consolidated income statement ; Consolidated statement of comprehensive income ; Consolidated statement of changes in equity ; Consolidated statement of financial position ; and Consolidated cash flow statement	86-93
Financial Statements Notes to the	94-135

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		consolidated financial statements analysis of items in the primary statements	
		Financial Statements Notes to the consolidated financial statements	136-158
		supplementary information	
		Financial Statements Report of Independent Registered Public Accounting Firm Audit opinion for Form 20-F	85
19		Filed with the SEC	

Exhibits

Table of Contents

Table of Contents**Overview**

<u>About National Grid</u>	01
----------------------------	----

Strategic Report pages 02 - 41

<u>Chairman's statement</u>	02
<u>Chief Executive's review</u>	04
<u>Operating environment</u>	06
<u>What we do</u>	08
<u>Our business model</u>	12
<u>Our vision and strategy</u>	14
<u>Delivering our strategy – key performance indicators</u>	16
<u>Financial review</u>	20
<u>Our people</u>	24
<u>Principal operations</u>	27
<u>Internal control and risk management</u>	38

Corporate Governance pages 42 - 75

The Corporate Governance Report, introduced by the Chairman, contains details about the activities of the Board and its committees during the year, including reports from the Audit, Nominations, Remuneration, Finance, and Safety, Environment and Health Committees, as well as details of our shareholder engagement activities.

<u>Corporate Governance contents</u>	42
<u>Directors' Report and other disclosures</u>	59
<u>Directors' Remuneration Report</u>	60

Financial Statements pages 76 - 163

Including the independent auditors' reports, consolidated financial statements prepared in accordance with IFRS and notes to the consolidated financial statements, as well as the Company financial statements prepared in accordance with UK GAAP.

<u>Financial Statements contents</u>	76
<u>Introduction to the financial statements</u>	77
<u>Statement of Directors' responsibilities</u>	78
<u>Independent auditors' report</u>	79
<u>Report of Independent Registered Public Accounting Firm</u>	85

Additional Information

pages 164 inside back cover

Additional disclosures and information, definitions and glossary of terms, summary consolidated financial information and other useful information for shareholders, including contact details for more information or help.

Additional Information contents

164

We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used; please refer to the glossary for this information.

Definitions and glossary of terms

192

Want more information or help?

196

Online

For a full search facility, please go to the pdf of our Annual Report and Accounts 2014/15 in the investor relations section of our website (www.nationalgrid.com) and use a word search.

Table of Contents

Table of Contents

Strategic Report

Chairman’s statement

It’s been a challenging year for the energy sector. Energy policies in the UK and US have continued to evolve against a backdrop of political uncertainty, seeking an acceptable balance between affordability to consumers, security of supply and sustainability considerations.

In focus:

**The Board is proposing
a recommended
full-year dividend of**

42.87p

(2013/14: 42.03p)

In the UK, we saw debate around the cost of living lead to a sharper focus on the costs of energy and the competitiveness of energy markets. This focus has included an Energy and Climate Change Select Committee inquiry into energy network costs, as well as an investigation by the Competition and Markets Authority into the supply and acquisition of energy in Great Britain.

In the UK, Electricity Market Reform

(EMR) was implemented successfully, and we saw developments in significant interconnector projects (see page 27). In the US, there were mid-term US congressional and gubernatorial elections and debate continued on essential infrastructure, resilience and sustainability.

Transparency

In January we announced our decision to stop publishing formal Interim Management Statements (IMs), following the changes in legislation that removed this requirement. Mandatory requirements to publish information can frequently provide

an unnecessary focus on matters of little relevance to a long-term business such as National Grid.

Alongside our major announcements at the half year and full year we will continue to provide updates covering market and Company developments.

We also continue to provide commentary on both our IFRS reported results and underlying economic (regulatory) performance, including reconciliations between the key metrics for both results. To help explain this more fully, we have increased the commentary on our regulatory performance on page 23, and have included further analysis of our regulatory performance by segment on page 100. We support the development of an accounting standard for rate-regulated activities, which would reduce the need for additional explanations of our results, and submitted a response to the IASB's project in January this year.

Dividend

The Board has recommended an increase in the final dividend to 28.16 pence per ordinary share (\$2.1866 per American Depositary Share). If approved, this will bring the full-year dividend to 42.87 pence per ordinary share (\$3.3584 per American Depositary Share), an increase of 2.0% over the 42.03 pence per ordinary share in respect of the financial year ending 31 March 2014.

In August 2014 we began a share buyback programme designed to operate alongside our scrip dividend option, which we offered for the interim dividend and will offer again for the full-year dividend. The buyback programme, which operates under authorities granted at our 2014 AGM, is designed to balance shareholders' appetite for the scrip dividend option with our

desire to operate an efficient balance sheet with appropriate leverage.

Effective governance

In July 2014, John Pettigrew, who joined the Board in April 2014, became Executive Director, UK and Nick Winser and Maria Richter both stepped down from the Board.

Table of Contents

Philip Aiken stepped down from the Board in February 2015 before his appointment as Balfour Beatty's new Chairman. He was a National Grid Non-executive Director for six years and played an important role in chairing our Safety, Environment and Health Committee. Following Philip's departure, Paul Golby was appointed as chairman of the Safety, Environment and Health Committee, as well as a member of the Audit Committee. Paul remains a member of the Nominations and Remuneration Committees.

Tom King stepped down from the Board and left the Company on 31 March 2015. He was succeeded by Dean Seavers, who joined the Company in December 2014 and, following a thorough handover, joined the Board as Executive Director, US with effect from 1 April 2015.

John and Dean's appointments bring fresh perspective, experience and challenge to our Board. Dean joined us after a career that has included business leadership roles of major divisions within GE, United Technologies and Tyco. In particular, he has led major change and performance improvement programmes that have improved operational efficiency and customer satisfaction – important priorities for our US business.

As you can read on page 17, we are adding new KPIs to our reporting, so we can more fully reflect the issues that really matter to the Company and our stakeholders. For our 2014/15 Report, we have included workforce diversity as a new KPI and you can read more about our approach to this on pages 18 and 19, as well as progress in relation to our Board diversity policy on page 58.

You can find more information about our approach to being a responsible business, including our Total Contribution Report, on our website.

Looking ahead

We will face both opportunities and challenges over the coming year. For example, in the UK Ofgem has concluded its Integrated Transmission Planning and Regulation project. As part of this, the System Operator is expected to undertake a number of new advisory roles. We have a long track record in successfully managing potential conflicts of interest from our System Operator role and will work closely with Ofgem to make sure this continues.

I would like to thank Nick, Tom, Philip and Maria for their commitment to the Board and the very valuable contribution they have made.

National Grid's UK regulated entities appointed Catherine Bell and Clive Elphick as Non-executive Directors with effect from 1 April 2014. The appointment of two Non-executive Directors is a new requirement promoted by Ofgem, which has termed the appointments Sufficiently Independent Directors. The arrangements are designed to enhance the financial ring-fencing conditions that already exist in the companies' licences.

Responsible business

At National Grid, we believe that what we do and how we do it are equally important. In July 2014, National Grid was named Responsible Business of the Year 2014 by Business in the Community (BITC). To win this award we had to demonstrate how we operate responsibly in everything we do, and how we are improving the outcomes for society through our work.

I was delighted that the judging panel commended our long-term vision based on trust and connectivity. They noted our foresight in using technology and innovation to develop solutions that protect our employees, customers and wider society; and recognised our appetite to inspire others.

In the UK, we are in discussions with the Living Wage Foundation about the opportunity to become a fully accredited Living Wage

In the US we expect to file important applications for new rate plans – you can read more about this on page 169. We will continue to work with policymakers, customers, and stakeholders to transform the energy industry through initiatives in Massachusetts, New York, and Rhode Island (see pages 33 to 35).

We must adapt to developments in corporate governance requirements. For example, the updated UK Corporate Governance Code enhances the quality of information investors can expect to receive about the long-term health and strategy of listed companies, and encourages companies to be more transparent about risk management and internal control.

Finally, I am confident that our people will continue to help make National Grid a company we can all be proud of and I thank all our employees for their hard work and commitment to our success.

Sir Peter Gershon

employer. We can confirm that all our UK employees fulfil the criteria for accreditation. We are also working through the Living Wage Charter to understand the impact it would have on our supply chain, including the companies our suppliers use as sub-contractors, should we decide to adopt it.

Table of Contents

Strategic Report

Chief Executive's review

I'm really proud of our performance this year. Overall, our businesses in both the UK and US achieved a strong operating performance.

In focus:

**Employee
engagement score**

75%

(2013/14: 71%)

In the UK, there has been a lot of public focus on how secure and reliable our energy supply is, particularly on tighter margins between electricity supply and demand in the winter. Despite tighter margins than previous years, we were able to operate the system without calling upon our additional reserve. This was because of stronger than expected plant availability, mild weather,

healthy wind output and consistent interconnector imports from France and the Netherlands.

We also tendered the two new balancing services for additional reserves of supply. Although these additional reserves were not used, this was a sensible precaution in case of colder weather or a series of unexpected plant shutdowns.

In the US, we saw an extremely harsh and prolonged period of plunging temperatures and record levels of snowfall in parts of New England,

particularly in February and March. Again, our network resilience held up well. We have invested millions of dollars in both our electricity and gas infrastructure to improve resilience and help reduce the impact of service interruptions.

In December 2014 we received an award for excellence in energy efficiency from Platts Global Energy. Platts commended us for ongoing initiatives to upgrade equipment, reduce emissions, and improve safety and network efficiency. And in March 2015, the Edison Electric Institute presented us with its Emergency Recovery Award for our power restoration efforts following the severe ice storm in northern New York in December 2013.

Safety

Safety remains a hugely important priority for us. Regrettably, there were two fatalities during the year – a member of the public in the UK who fell when climbing on one of our pipelines, and a contractor at our Rhode Island gas distribution business. Despite these incidents, we achieved our best-ever Group safety performance during 2014/15. We can never be complacent about our performance and must continually strive to improve.

Our operations

We have continued to provide good value and reliability for customers while keeping our element of bills as low as possible.

We are totally committed to providing the best value we can for our customers, investors and other stakeholders, so we're working hard to make sure we are being

as efficient as possible in everything we do. To help achieve this, we have continued to develop a way of working we call Performance Excellence , which you can read about on page 27. We also reorganised our UK business to increase clarity around what we do and who is accountable.

In the US, we finally completed the stabilisation work on our new financial systems (see page 34). This fixed a number of long-standing problems, such as inefficient payroll processing, which had previously required expensive manual interventions. Long term,

Table of Contents

the robust data we can produce with the new systems is an essential foundation to the future performance improvements and regulatory filings that we need for profitable growth in the US.

It is increasingly recognised in the US that investment levels in some areas will need to rise compared with the earlier part of this decade, and we have seen increased activity this year, making it our highest ever year of US investment.

In December 2014 the NYPSC approved \$200 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers.

The NYPSC also published the results of the regulatory audit of our New York gas companies. These audits are a regular feature of the New York regulatory process. The audit was broadly supportive of our performance and structure and, as is usual, made some helpful recommendations for further improvement. We have responded with an implementation plan to provide these benefits on behalf of New York customers.

to bring the world of work to life for secondary school children. Our US initiatives include partnering with seven local community colleges to deliver energy utility technology training programmes that are designed to equip people for jobs in the energy industry. We are doing a great deal of work in this area, as you can read on page 24.

All this is business as usual for us – the BITC recognition is not the result of any special new initiative we have done to win the award. But it would not have been possible without the efforts of our employees. I was delighted to see that the results of our 2015 employee opinion survey – a good measure of how satisfied employees are with their employer – included an engagement score of 75% our highest since we started conducting Group-wide employee opinion surveys.

I would like to thank all our people for making a positive impact, through their work for National Grid, their volunteering and fundraising achievements, and by getting involved in activities that really matter to us and to society.

As you can read on pages 18 and 19, our customer satisfaction scores were mixed. We exceeded our UK electricity and gas transmission targets. However, we did not meet our US targets and I recognise this is an area in which we must improve.

Responsible Business of the Year

As Sir Peter has described in his statement, National Grid was named Responsible Business of the Year 2014, which is BITC's top award. I am extremely proud of this achievement, which is terrific recognition of how we are running a responsible and sustainable business, bringing long-term benefits to society. Although BITC is a UK body, the award was given to the entire Company and recognises the excellent work we're doing across our entire service area in the UK and US.

For example, in the UK we are completing a test line for the T-pylon at our training academy. It is smaller than the existing lattice towers and provides communities with added choice. Our property business entered into a new arrangement with the Berkeley Group to develop a number of our sites in London and the surrounding area. The first phase of investments could lead to the development of over 7,000 new homes, including affordable housing, alongside schools and public spaces.

Our EmployAbility programme provides supported internship opportunities for students with additional learning needs. Now into its second year, we have extended the programme and will continue to do this across more of our UK sites.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable sector with a great future. Our careers education

Priorities for 2015/16

Safety: continue to build on our strong performance so we can achieve a consistent world-class safety performance;

Customers and stakeholders: improve the service we provide for our customers and continue to build trust among our stakeholders;

Performance Excellence: focus on being efficient in our end-to-end processes so we can continue to improve our overall performance and efficiency; and

Regulatory filings: prepare and file applications for new rate plans in New York, Long Island and Massachusetts.

Steve Holliday

programmes in the UK include Careers Lab, an initiative we developed that has now been taken up by BITC. It links working professionals with schools

Table of Contents

Strategic Report

Operating environment

The UK economy has been recovering steadily in the past year, with 2.6% economic growth, falling unemployment and falling inflation.

Growth in the fourth quarter of 2014, however, dropped to 0.5% as sluggish eurozone growth depressed exports and wider geopolitical events increased the perceived risk of investment. In the US, employment levels have continued to rise. The Federal Reserve ended its quantitative easing programme of bond purchases, though treasury yields continue to be at or near

historical lows. GDP increased 2.4% in 2014, although growth in the first quarter of 2015 was only 0.2%.

Below, we highlight our main market drivers and the impact they have on our business.

Market driver

Impact

Changing energy mix

Changing fuel costs and environmental programmes are affecting traditional electricity generation

UK

In February 2015 DECC announced the results of the first Contracts for Difference (CfD) auction allocation rounds, with wind technology making up the bulk of contracted generation. Continued support for solar PV through Feed in Tariffs (FiTs) and the Renewables Obligation contributed to growth in installed solar PV.

Older fossil fuel plants continue to face the challenge of environmental regulations while the new nuclear plant at Hinkley received State Aid approval from the European

This could lead to significant network investment opportunities

UK

Increasing deployment of large-scale wind, large-scale solar PV and nuclear will require more investment in transmission networks to connect new plant and reinforce the network. Variable output from solar PV and wind makes balancing demand and supply more challenging.

More interconnection between the UK and adjacent European markets will deliver net benefits to the UK.

Commission in October 2014.

US

US

In the US, shale gas development has continued to keep national wholesale prices low.

Lower national wholesale gas prices have increased the amount of gas used for electric generation, causing constraints into the northeast US.

Environmental Protection Agency regulations have led to generator retirements or increased costs for compliance.

Oil to gas conversions will continue as gas maintains its price advantage. New interstate gas pipeline capacity is needed to overcome growing gas demand.

Renewables are growing their share of electricity generation and account for a significant amount of newly installed capacity. Distributed generation, such as rooftop solar, has grown substantially in our service territory.

The electric transmission system will need upgrades and rebalancing due to generation retirements and to connect new renewable sources. Increasing amounts of distributed generation, particularly solar, will require investment in the electric distribution network.

Energy policy

Sustainability, security of supply and affordability underpin EU policy

Against a difficult economic and financial background, the EU's energy policy is underpinned by sustainability, security of supply and affordability. In October 2014 the EU heads of state agreed the EU's 2030 Climate Change and Energy Framework. This includes a 40% reduction target for carbon emissions, alongside other objectives for renewables, energy efficiency and interconnections.

Policy decisions can affect our investment needs and compliance obligations

Greater levels of market integration, interconnection and renewable generation are fundamental to achieving the EU's policy objectives.

Negotiations for a new international agreement on climate change continued at the twentieth session of the Conference of Parties (COP20) in Lima in December 2014. Nations are looking to the Paris worldwide conference in 2015 as the next opportunity to work out a new climate change deal.

While European developments present challenges, the significant level of investment required will create opportunities for growth. For example, potential future interconnector opportunities include connections between the UK and France, Ireland, Denmark and Iceland. Such opportunities would help the EU achieve its interconnection targets. See page 27 for more information about our interconnector projects.

Finally, the creation of a genuine energy union was highlighted as one of the main priorities of the new European Commission, which took office in November

2014.

UK energy policies are attracting investment and there is significant political focus on reducing costs for consumers

Energy policy continues to evolve from the Climate Change Act 2008, which commits the UK Government to reducing UK greenhouse gas emissions to at least 80% lower than a 1990 baseline by 2050. The Energy Act 2013 implements the main aspects of EMR, and puts in place measures to attract the investment needed. The run-up to the General Election in May 2015, saw a sharp focus on the costs of energy and the competitiveness of energy markets.

National Grid is central to the delivery of EMR and active on driving down costs

National Grid has been performing its role as delivery body for the Government on EMR, as described on page 39.

The focus on the cost of energy is important to National Grid. We are working hard to highlight to our stakeholders how the RIIO regulatory framework is helping us to reduce costs for consumers while creating incentives for vital investment.

Table of Contents

Market driver

Impact

US policy is evolving to meet environmental and energy diversity goals

In the US, many federal level developments have been through federal agency regulations and Presidential executive orders. At a state level, energy policy continues to evolve in the northeastern US, driven by interest in promoting energy efficiency, maintaining reliability and deploying renewable technologies that help meet environmental and energy diversity goals.

Regulation

Infrastructure investment needs must be balanced with affordability

Regulators acknowledge that there is a significant need for infrastructure investment. However, affordability continues to be a primary concern.

Ageing gas mains can be riskier to use and can contribute to greenhouse gas emissions through leaks. Regulators and policymakers are asking utilities to put plans in place to strengthen their networks' ability to withstand the effects of severe weather.

UK regulators want greater efficiency and innovation

Options for increased renewable and distributed generation are being explored

In the US, the impact on natural gas dependency has resulted in an evaluation of the best way of increasing fuel diversity through renewable and distributed generation resources. We continue to support movement towards a clean energy economy; and support additional measures to increase America's energy productivity.

We must accommodate customers' cost concerns and also provide safe, up-to-date systems

We must accommodate our customers' affordability concerns while fulfilling our obligations to provide safe and reliable services and upgrading our systems. Investment is required for new connections, to meet the challenges of changing supply and demand patterns, and to replace ageing infrastructure in the UK and US.

This is driving them to favour more market competition

In the UK, the regulatory focus during the year has been on the RIIO price controls which give greater focus to incentives and innovation than the previous regulatory regime.

We continue to be engaged in the debate on the regulatory approach to electricity transmission investment, stemming from the projected increase in offshore wind generation and interconnection.

In the UK, Ofgem is reviewing the arrangements for planning and delivering Britain's transmission networks

We are facing new challenges from an ageing infrastructure and a changing energy mix. Technical developments and innovation also mean that there could be opportunities to coordinate and integrate those investments.

The Integrated Transmission Planning and Regulation (ITPR) project is looking at long-term challenges such as ageing infrastructure, the changing energy mix, technical developments and innovation, to assess whether the regulatory arrangements currently in place are sufficient to ensure coordination and efficiency in the future planning of electricity transmission.

US regulators are focused on system modernisation and integration of new distributed energy resources

State officials in Massachusetts and New York have approved gas system investment programmes to accelerate replacement of ageing infrastructure. The Massachusetts Grid Modernization proceeding and New York's Reforming the Energy Vision effort both focus on deploying advanced electric grid capabilities to improve reliability, more fully exploit distributed energy resources, and provide new opportunities for customers to control their energy use.

In the UK, competition is already in place for offshore development and Ofgem has stated its intent to retain the option of using greater competition for certain large onshore projects.

For more information about network efficiency and innovation, see pages 27 to 31.

We need to make sure the network is planned in an economic, efficient and coordinated way

Ofgem has proposed enhancing our role as System Operator (SO) so that the SO has a greater role in system planning. No organisation is currently responsible for taking an overarching view of system development, so opportunities for coordination can potentially be missed. We are working with Ofgem to develop the framework for how the system will be planned and how assets will be managed.

Investments to modernise networks and integrate distributed resources will offer new options and value to customers

We are expanding gas system enhancement investment programmes and are developing electric grid modernisation plans. Through our regulatory efforts and stakeholder engagement we are seeking to create a regulatory framework that integrates distributed energy resources into the electric grid in a way that is cost effective and delivers benefits to customers.

In the US, FERC is reforming transmission planning and promoting competition in the transmission industry

FERC issued Order 1000 in 2011 to improve transmission planning and increase competition in the transmission industry. Policies to comply with the Order took effect in New York and New England in 2014 and 2015, respectively.

Innovation and technology

Performance improvements and cost declines have led to continued growth in new technologies

Distributed generation of solar power has grown significantly due to price declines and tax incentives. Energy storage is growing in the US as certain states set goals and other utilities announce investment plans for storage capacity.

The UK hit a record high for wind generation in 2014 of 28 terawatt hours (TWh), 15% greater than the previous year.

Plug-in electric vehicle sales in the US and worldwide grew, even as gasoline prices dropped throughout the past year.

Competitive transmission planning provides opportunities for us

Order 1000 has opened our service territory to competition from non-incumbent transmission developers and also created opportunities for us to compete for transmission projects outside of our current geographic footprint.

Further investment in electricity distribution networks may be necessary to integrate these new technologies

Investment in renewable energy continues to grow. Regulatory proceedings are underway to enhance the value of distributed resources to the grid and give customers more control over their energy use.

These could require significant network investment in order to integrate new and variable resources and provide customers with more information on their usage.

Table of Contents

Strategic Report

What we do Electricity

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

System operator

As system operator (SO) for England and Wales, we coordinate and direct electricity flows onto and over the transmission system, balancing generation supply and user demand. Where necessary, we pay sources of supply and demand to increase or decrease their generation or usage.

We have the same role for the two high voltage electricity transmission networks in Scotland and we are SO for the offshore electricity transmission regime.

Our charges for SO services in the UK are subject to a price control approved by Ofgem. System users pay us for connection, for using the system and balancing services.

As electricity transmission SO, our price control includes incentives to minimise the costs and associated risks of balancing the system through buying and selling energy, as well as procuring balancing services from industry participants.

will deliver significant benefits to consumers. These include opportunities for interconnection with Iceland, Denmark and a further link with France.

We also jointly own and operate a 224 kilometre interconnector between New England in the US and Canada.

We sell capacity on our UK interconnectors through auctions and on our US interconnector through wholesale markets and bilateral contracts.

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

We own and operate the transmission network in England and Wales. We operate but do not own the Scottish networks. We are also working in a joint venture with Scottish Power Transmission to construct an interconnector to reinforce the GB

In the US, similar services are provided by independent system operators.

transmission system between Scotland and England and Wales.

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. In the US, we own and operate 50 fossil fuel-powered stations on Long Island and 4.6 MW of solar generation in Massachusetts. We do not own or operate any electricity generation in the UK.

In the US, we jointly own and operate transmission facilities spanning upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

We sell the electricity generated by our plants on Long Island to LIPA under a long-term power supply agreement. The contract allows us to recover our efficient operating costs and provides a return on equity on our investment in the generation assets.

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

For solar generation, we recover our costs and a reasonable return from customers in Massachusetts through a solar cost adjustment factor. This is added to the electricity rate, net of revenues earned from the solar assets.

We do not own or operate electricity distribution networks in the UK.

In the US, our distribution networks serve around 3.5 million customers in upstate New York, Massachusetts and Rhode Island.

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps provide a safe, secure, reliable and affordable energy supply for citizens and society across the region.

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

Interconnectors also allow power suppliers to sell their energy to customers in other countries.

We do not sell electricity to consumers in the UK.

Great Britain is linked via interconnectors with France, Ireland, Northern Ireland and The Netherlands. National Grid owns part of the interconnectors with France and The Netherlands. We are also now entering the construction phase for two new interconnectors, between the UK and Belgium and Norway. We are continuing to work on developing additional interconnector projects, which we believe

All our customers in the US can select a competitive supplier for the supply component of electricity utility services. Where customers choose National Grid, they pay us for distribution and electricity costs. Where they choose to buy electricity from third parties, they pay us for distribution only and pay the third-party supplier for the electricity. Our base charges for electricity supply are calculated to recover the purchased power costs.

Table of Contents

Table of Contents

Table of Contents

What we do Gas

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

System operator

As system operator we are responsible for the high pressure gas National Transmission System (NTS) in Great Britain. We have responsibility for the residual balancing activities on the NTS and for keeping the physical system within safe operating limits.

Our price control, set by Ofgem, includes incentives that aim to maintain and improve our daily operational efficiency and are subject to renegotiation at set intervals.

Gas used in the UK is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

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

We are the sole owner and operator of gas transmission infrastructure in Great Britain.

In the US, we hold a minority interest in two interstate pipelines: Millennium Pipeline Company and Iroquois Gas Transmission System. Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC).

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

There are eight regional gas distribution networks in the UK, four of which are owned by National Grid. In the US, gas is delivered by the interstate pipeline companies to local distribution networks. Each local distribution company has a geographically defined service territory and is the only local distribution company within that

Gas used in the US is produced mainly in North America. We import LNG from a number of countries.

territory. Local distribution companies are regulated by the relevant local state's utility commission.

We do not produce gas in either the UK or US.

Our networks deliver gas to 10.9 million consumers in the UK and 3.6 million customers in the US.

In the UK, we own and operate Grain LNG, an importation terminal and storage facility at the Isle of Grain in Kent, which charges customers under long-term contracts for various services. These include access to our importation terminal, storage facilities and capacity rights.

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

In the US, we own and operate LNG storage and vaporisation facilities, as well as an LNG storage facility in Providence, Rhode Island, where we store gas for third parties for a fee. We also buy gas directly from producers and LNG importers for resale to our customers.

We do not supply gas in the UK. However, we own National Grid Metering, which provides meters and metering services to supply companies, under contract.

The transmission systems generally include pipes, compressor stations and storage facilities, including LNG storage. They connect production through terminals to the distribution systems.

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

In the UK, gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage.

In the US, gas distribution companies, including National Grid, sell gas to consumers connected to their distribution systems.

Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

In most cases in the US, where customers choose National Grid, they pay us for distribution and gas costs. Where they choose to buy gas from third parties, they pay us for distribution only and pay the third-party supplier for the gas and upstream transportation capacity.

Also in the US, except for residential consumers in Rhode Island, customers may purchase their supply

The gas transmission system has to be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met.

from independent providers with the option of billing for those purchases to be provided by us.

Table of Contents

Strategic Report

Our business model

How we generate long-term value.

12

Table of Contents

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

13

Table of Contents

Strategic Report

Our vision and strategy

Our vision describes our intentions and aspirations at the highest level. Our strategic objectives set out what we believe we need to achieve to deliver our vision and be recognised as a leader in the development and operation of safe, reliable and resilient energy infrastructure.

Strategic objective	Description	How we deliver
----------------------------	--------------------	-----------------------

Deliver operational excellence

Achieve world-class levels of safety, reliability, security and customer service.

Our customers, communities and other stakeholders demand safe, reliable and secure supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders.

Pursuing excellence in all our operational processes will allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of our customers.

Engage our people

Create an inclusive, high-performance culture by developing all our employees.

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

Our presence within the communities we serve, the people we work with and our opportunities to grow both individually and as a business are all important to making National Grid a great place to work.

<p>Stimulate innovation</p>	<p>Promote new ideas to work more efficiently and effectively.</p>	<p>Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do.</p> <p>Embedding innovation and new technology into our operations helps us deliver continuous improvements in the quality and cost of our services.</p>
<p>Engage externally</p>	<p>Work with external stakeholders to shape UK, EU and US energy policy.</p>	<p>Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our stakeholders.</p>
<p>Embed sustainability</p>	<p>Integrate sustainability into our decision making to create value, preserve natural resources and respect the interests of our communities.</p>	<p>Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation.</p> <p>That culture will allow us to make decisions that protect and preserve natural resources and benefit the communities in which we operate. We remain committed to our targets of a 45% reduction in Scope 1 and 2 greenhouse gas emissions by 2020 and 80% by 2050.</p>
<p>Drive growth</p>	<p>Grow our core businesses and develop future new business options.</p>	<p>We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders.</p> <p>We review investment opportunities carefully and will only invest where we can reasonably expect to earn</p>

acceptable returns.

Combining this disciplined approach with operational and procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our commitments to investors.

Table of Contents

Relevant KPIs

Employee IFR

Network reliability

Customer satisfaction

See pages 16 19

Employee engagement
index

Workforce diversity

See pages 18 19

Our vision

*Connecting you to your
energy today, trusted to
help you meet your energy
needs tomorrow.*

How our strategy creates value

Our vision and strategic objectives explain what is important to us, so we can meet our commitments and deliver value.

Customer and community value

Shareholder value

Value added

Network reliability

See pages 16 19

Safety and reliability we strive to provide reliable networks safely, which is essential to safeguard our customers, employees and the communities in which we operate.

Regulatory frameworks operating within sound regulatory frameworks provides stability. Making sure these frameworks maintain a balance between risk and return underpins our investment proposition.

Customer satisfaction

See pages 18 19

Affordability we strive to provide services efficiently, which helps to reduce the amount of money consumers have to pay for their energy.

Reputation our approach to safety and our reliability record underpin our reputation. These are crucial factors that contribute towards positive regulatory discussions and help us pursue new business opportunities.

Greenhouse gas emissions

See pages 18 19

Customer service providing essential services that meet the needs of our customers and communities is a crucial part of the value they expect from us.

Efficient operations efficient capital and operational expenditure allows us to deliver network services at a lower cost and reduces working capital requirements.

Sustainability we strive to protect the environment and preserve resources for current and future generations.

Maximising incentives if we perform well against our incentives, and deliver the outputs our customers and regulatory stakeholders require, we can make the most of our allowed returns.

Regulated asset growth

Adjusted EPS

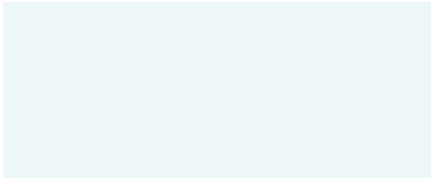
See pages 16 17

Emergency services we provide telephone call centres, coordinate the response to gas emergencies, and respond to severe weather events.

Funding and cash flow management securing low-cost funding and carefully managing our cash flows help us maintain strong returns for our investors.

Community engagement we listen to the communities we serve and work hard to address concerns about the development of our networks. Our employees volunteer for community-based projects and we support educational initiatives in schools.

Disciplined investment we can increase our revenue and earnings by investing in both regulated and non-regulated assets. This helps us deliver attractive returns for our shareholders.



NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

15

Table of Contents

Strategic Report

Delivering our strategy key performance indicators

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

KPI and definition

Our performance

Adjusted EPS

Adjusted earnings represent profit for the year attributable to equity shareholders. This excludes exceptional items, remeasurements and stranded cost recoveries (see pages 103 and 104).

Adjusted earnings per share provides a measure of shareholder return that is comparable over time.

Group return on equity (RoE)

Adjusted EPS pence¹

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Group return on equity %

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

This calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Regulated asset growth

Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years.

Value added

Reflects value to shareholders of dividend and growth in National Grid's assets, net of the growth in overall debt.

Employee lost time injury frequency rate

Number of employee lost time injuries per 100,000 hours worked in a 12 month period.

Total regulated assets and regulated asset growth £bn

1. US base rate calculated as at 31 December 2010 in this year.
2. Estimated figure until the conclusion of the regulatory reporting cycle.

Value added £bn

Employee lost time injury frequency rate per 100,000 hours worked

Our ambition is to achieve a world-class safety performance of below 0.1.

Table of Contents

We are adding new KPIs to better reflect the issues that matter most to our Company and our stakeholders. For this 2014/15 Report, we have included information about workforce diversity, as set out on pages 18 and 19. We aim to include two further new KPIs in our 2015/16 Report. These relate to community engagement and investment in education, skills and capabilities. Executive remuneration is linked to some of our KPIs.

Commentary**Target**

For the year ended 31 March 2015, adjusted earnings attributable to equity shareholders increased by £174 million to £2,189 million. This increase in earnings resulted in an adjusted earnings per share of 58.1 pence, an increase of 9% on 2013/14.

The earnings increase was driven by a £199 million increase in adjusted operating profit. With the exception of our UK Gas Distribution business, we saw increases in adjusted operating profit across all of our business segments.

Group RoE has increased during the year to 11.8%, from 11.4% in 2013/14.

The UK regulated businesses delivered good returns of 13.7% in aggregate in the second year of their new price controls, including the assumed 3% long run average RPI inflation.

Overall adjusted net finance costs reduced by £75 million across the Group which was broadly offset by a higher adjusted tax charge of £114 million reflecting the increase in profits across the Group.

[See page 20](#)

US returns of 8.4% were slightly down on last year, reflecting the additional costs incurred on gas leak repair and compliance and the increased level of rate base growth since 2013.

[See page 21](#)

The adjusted EPS target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 70).

The Group RoE target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 70).

70).

Our regulated assets have increased by 7% (£2.3 billion) to £37.0 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar.

The rate of growth at constant currency was 3%.

The UK regulatory asset value (RAV) increased by £0.5 billion, reflecting significant capital expenditure, together with inflation, although at 0.9% RPI, this has had a smaller impact than in recent years. US rate base has increased by £1.8 billion this year. Of this, £1.2 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.6 billion, reflecting a record year of US investment.

No specific target. Our overall aim is to increase regulated asset growth above the underlying rate of inflation.

[See page 21](#)

Value added in the year was lower than 2013/14, primarily due to the impact of lower RPI on UK regulated asset growth. RPI inflation for March 2015 was 0.9% compared with 2.5% in March 2014 and National Grid's long run assumption of 3%.

Of the £1.7 billion value added in 2014/15, £1,271 million was paid to shareholders as cash dividends and £335 million as share repurchases (offsetting the scrip issuance during the year), with £79 million retained in the business.

No specific target. Our overall aim is to sustainably grow value added over the long term while maintaining performance of our other financial KPIs.

[See page 21](#)

In the UK we maintained a world-class employee safety performance during 2014/15, with an employee injury frequency rate of 0.09. Our US business improved its safety performance, with an employee injury frequency rate of 0.15.

Overall, our Company-wide injury frequency rate of 0.13 is better than last year and means that we bettered our target of 0.15. However, we did not meet our ambition to reach a world-class level by 2015.

We achieved our Company-wide employee IFR target of 0.15.

[See UK Principal operations: pages 27 31](#)

[and US Principal operations: pages 33 35](#)

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

17

Table of Contents

Strategic Report

Delivering our strategy **key performance indicators** continued

KPI and definition

Our performance

Network reliability		Performance					Measure	Target 14/15
		10/11	11/12	12/13	13/14	14/15		
The reliability of our electricity and gas networks.	UK Electricity							
	Transmission	99.9999	99.999999	99.999999	99.999999	99.999999	%	99.9999
	UK Gas							
	Transmission	100	100	100	100	100	%	100
	UK Gas							
	Distribution	99.999	99.999	99.999	99.999	99.999	%	99.999
	Electricity transmission US	99.969	99.960	99.958	99.957	99.942	%	
	Electricity distribution US	99.997	99.977	99.980	99.980	99.969	%	1
1. Targets are set individually by each of our US jurisdictions.								

Customer satisfaction		Performance					Measure	Target
		10/11	11/12	12/13	13/14	14/15		
We measure customer satisfaction in the UK using RIIO related metrics agreed with Ofgem. In the US, we use J.D. Power and Associates customer satisfaction surveys.	UK Electricity						Score out of 10	6.9 ¹
	Transmission	n/a	n/a	n/a	7.4	7.4		
	UK Gas						Score out of 10	6.9 ¹
	Transmission	n/a	n/a	n/a	7.2	7.6		
	UK Gas						Score out of 10	8.3 ¹
	Distribution	n/a	n/a	n/a	8.2	2		
	US Gas distribution						Quartile ranking	To improve
	Residential	2nd	3rd	3rd	2nd	4th		
	US Gas distribution						Quartile ranking	To improve
	Commercial	4th	3rd	4th	4th	4th		
US Electricity						Quartile ranking	To improve	
Residential	3rd	3rd	3rd	2nd	3rd			
US Electricity						Quartile ranking	To improve	
Commercial	2nd	2nd	3rd	2nd	2nd			

1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
 2. Under RIIO-GD1, our customer satisfaction results are now reported on an annual basis, rather than quarterly, which was how we reported them under our previous price control. We will publish the results on our website in the summer as part of our commitment to our stakeholders, and in our Annual Report and Accounts for 2015/16.

Employee engagement index

Employee engagement index %

A measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee opinion survey.

Greenhouse gas emissions

Scope 1 and Scope 2 greenhouse gas emissions of the six primary Kyoto greenhouse gases (excluding electricity transmission and distribution line losses). Our target is to reduce our greenhouse gas emissions by 45% by 2020 and 80% by 2050, compared with our 1990 emissions of 19.6 million tonnes.

Workforce diversity

Percentage of women and ethnic minorities in our workforce.

Greenhouse gas emissions million tonnes carbon dioxide equivalent

Workforce diversity %

Table of Contents

Commentary

Target

We aim to deliver reliability by: planning our capital investments to meet challenging demand and supply patterns; designing and building robust networks; risk-based maintenance and replacement programmes; and detailed and tested incident response plans. In the UK, our networks performed well. Despite tighter winter margins than previous years, we were able to operate the system without calling upon our additional reserve.

In the US, despite low temperatures and record levels of snowfall in parts of New England our network resilience held up well. We invested millions of dollars in both our electricity and gas infrastructure to improve resilience and help reduce the impact of service interruptions.

We achieved our targets, which are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.

[See UK Principal operations: pages 27 31](#)

[and US Principal operations: pages 32 35](#)

Our customer satisfaction KPI comprises seven components: Ofgem's UK electricity transmission, gas transmission and gas distribution customer satisfaction scores; and four J.D. Power and Associates customer satisfaction surveys in the US.

In the US, we did not achieve our targets. Customers were concerned about higher-than-normal winter bills as a result of electricity commodity price increases and higher gas usage due to cold weather. In an effort to rebuild trust and customer satisfaction, we put in place a customer outreach and education programme that focused on energy saving solutions and bill management.

Our targets for each business area are set out in the table. We achieved our UK transmission targets, but did not achieve our US targets.

We have exceeded the two UK electricity and gas transmission targets; the outcome for the

third UK KPI component will be published later this year (see note opposite).

[See UK Principal operations: pages 27 31](#)

[and US Principal operations: pages 32 35](#)

We measure employee engagement through our employee opinion survey. The results of our 2015 survey, which was completed by 83% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve. Our engagement index has risen by four points to 75%, our highest engagement score since we started conducting Group-wide employee opinion surveys. Managers receive a scorecard that aims to

create greater leadership accountability and we produce survey reports and action plans at Company, regional, business unit, function and team levels.

We achieved our target of increasing engagement compared with the previous year.

[See Our people: pages 24 25](#)

Our Scope 1 and 2 greenhouse gas emissions (excluding electricity transmission and distribution line losses) for 2014/15 equate to 7.3 million tonnes carbon dioxide equivalent; a 63% reduction against our 1990 baseline. These emissions are equivalent to an intensity of around 478 tonnes per £million of revenue.

Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases, using the operational approach for emissions accounting. Those Scope 1 and 2 emissions are independently assured against the international standard ISO 14064-3 Greenhouse Gas assurance protocol. A copy of this statement of assurance is available on our website.

Our target, described on the facing page, is in progress.

We measure and report our greenhouse gas emissions in accordance with the World Resources Institute and World Business Council on Sustainable Development

During 2014/15, the percentage of both women and ethnic minorities in our workforce increased slightly. For more details about the breakdown by gender at different levels of the organisation, as well as information relating to subsidiary

Opportunity and Opportunity Now. In the UK and US, our Employee Resource Groups continue to support our business goals and inclusion and diversity initiatives.

No specific target set. We aim to develop and operate a business that

directors, see page 25. During 2014/15 we were recognised as a Times Top 50 Employer for Women for 2015 and reached the Gold level in our benchmarking with both Race for

[See Our people: pages 24 25](#)

has an inclusive and diverse culture.

Table of Contents**Strategic Report****Financial review**

We have delivered another year of strong financial performance in the UK and solid performance in the US with record investment levels.

Additional commentary on financial KPIs**Adjusted operating profit**

Adjusted operating profit for the year ended 31 March 2015 was £3,863 million, up £199 million (5%) from last year. With the exception of our UK Gas Distribution business, we saw increases in operating profit in all of our business segments.

Adjusted operating profit by segment £m

For the year ended 31 March 2015, adjusted operating profit in the UK Electricity Transmission segment increased by £150 million. Net regulated income after pass-through costs was £230 million higher, principally reflecting increases in allowed transmission owner revenues this year and a £43 million benefit relating to legal settlements. This was partially offset by under-recoveries of allowed revenue in the

Within our US Regulated businesses, adjusted operating profit increased by £39 million to £1,164 million. The stronger dollar increased operating profit in the year by £30 million. Excluding the impact of foreign exchange, net regulated income increased by £81 million, reflecting increased revenue allowances under the Niagara Mohawk three year rate plan and other regulated revenue increases, partially offset by the impact of the end of LIPA management services agreement (MSA) in December 2013. In addition, over-recoveries of allowed revenues in the year of £30 million were £20 million favourable to last year's over-recoveries of £10 million. Regulated controllable costs increased by £17 million excluding the impact of foreign exchange, as a result of increased gas leak and compliance work and additional costs incurred to improve data quality to bring regulatory filings up to date. This was partly offset by the removal of costs associated with the LIPA MSA activities. Following last year's exceptionally cold winter, bad debt costs were £62 million higher excluding the impact of foreign exchange. There were no major storms affecting our operations in the years ended 31 March 2014 and

year of £89 million compared with under-recoveries of £60 million in the prior year. Regulated controllable costs were £14 million higher due to inflation, organisational change costs and additional tower maintenance costs. Depreciation and amortisation was £33 million higher reflecting the continued capital investment programme, and other costs were £4 million higher than prior year.

UK Gas Transmission adjusted operating profit increased by £20 million to £437 million. Net regulated income after pass-through costs was £42 million higher due to earned gas permit and constraint management incentives. In addition, under-recoveries of allowed revenue in the year of £18 million were £3 million favourable to last year's under-recoveries of £21 million. Partially offsetting the revenue gains, regulated controllable costs were £8 million higher, including additional system operator costs relating to EU work. Other operating costs were also £17 million higher, including decommissioning costs of the Avonmouth LNG plant.

UK Gas Distribution adjusted operating profit decreased to £826 million from £904 million in 2013/14. Net regulated income after pass-through costs was £11 million lower, reflecting changes in allowed revenues for repex expenditure. Timing differences reduced net revenues by a further £16 million, with £13 million over-recoveries in 2014/15 compared with a £29 million over-recovery in the prior year. Regulated controllable costs were £22 million higher primarily due to inflation and organisational change costs. Depreciation and amortisation was £15 million higher reflecting the continued capital investment programme, and other costs were £14 million higher than prior year, including provision for additional asset protection costs.

2015.

Adjusted operating profit in Other activities was £68 million higher at £199 million. Operating profit in the French interconnector was £18 million higher as a result of strong auction revenues this year. In the US, corporate and other activities losses were £63 million lower, mainly as a result of the completion of the enterprise resource planning system stabilisation in the first half of the year.

Adjusted earnings

For the year ended 31 March 2015, adjusted net finance costs were £75 million lower than 2013/14 at £1,033 million, mainly as a result of lower average gross debt through the year, lower RPI rates in the UK and refinancing debt at lower rates.

The adjusted tax charge was £114 million higher than 2013/14. This was mainly due to higher profits before tax and the non-recurrence of one-off items that benefited the prior year. As a result of this, the effective tax rate for 2014/15 was 24.2% (2013/14: 22.5%).

The earnings performance described above has translated into adjusted earnings of £2,189 million, up £174 million on last year. This equates to adjusted earnings per share (EPS) of 58.1 pence, up 4.6 pence (9%) on 2013/14.

Script restatement

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated as a result of shares issued via scrip dividends.

Measurement of financial performance

We describe and explain our results principally on an adjusted basis and explain the rationale for this on page 186. We present results on an adjusted basis before exceptional items, remeasurements and stranded cost recoveries. See page 186 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position.

Table of Contents

This section provides additional commentary on our KPIs and other performance metrics we use to monitor our business performance. Analysis of our financial performance and position as at 31 March 2015, including detailed commentary on the performance of our operating segments, is located in the financial statements. However, this analysis still forms part of our Strategic Report financial review. See page 77 for further information. See pages 187 to 189 for commentary on our financial performance and position for the year ended 31 March 2014 compared with 31 March 2013. We have also included analysis of our UK regulated financial performance by segment on page 100.

A reconciliation between reported operating profit and adjusted operating profit is provided below. Further commentary on movements in the income statement is provided on page 87.

£m	Year ended 31 March		
	2015	2014	2013
Total operating profit	3,780	3,735	3,749
Exceptional items		(55)	84
Remeasurements			
commodity contracts	83	(16)	(180)
Stranded cost recoveries			(14)
Adjusted operating profit	3,863	3,664	3,639
Adjusted net finance costs	(1,033)	(1,108)	(1,124)
Share of post-tax results of joint ventures	46	28	18
Adjusted taxation	(695)	(581)	(619)
Attributable to non-controlling interests	8	12	(1)
Adjusted earnings	2,189	2,015	1,913
Adjusted EPS (pence)	58.1	53.5	50.9

US rate base has increased by £1.8 billion this year. Of this, £1.2 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.6 billion, reflecting a record year of US investment.

Value added

Our dividend is an important part of returns to shareholders along with growth in the value of the asset base attributable to equity investors. These are reflected in the value added metric that underpins our approach to sustainable decision-making and long-term incentive arrangements.

Overall value added in the year was £1.7 billion or 44.7 pence per share as set out below:

Year ended 31 March

	£bn at constant currency	2015	2014	Change
	UK regulated assets ¹	25.5	25.2	+0.3
Group return on equity (RoE)	US regulated assets ¹	13.5	12.6	+0.9
We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.	Other invested capital	1.6	1.7	-0.1
	Total assets	40.6	39.5	+1.1

Group RoE has increased during the year to 11.8%, from 11.4% in 2013/14. During the year, the UK regulated businesses delivered good returns of 13.7% in aggregate in the second year of their new price controls (2013/14: 12.7%), including the assumed 3% long-run average RPI inflation. US returns (on a higher average equity ratio than the UK) of 8.4% were down on last year, reflecting the additional costs incurred on gas mains repair and emergency leak response and the increased level of rate base growth since 2013. Overall, other activities in the Group delivered a good performance, including an improved result from the French interconnector and lower US corporate costs following the completion of the enterprise resource planning system stabilisation during the year. Treasury performance also helped the result, partly assisted by lower RPI accretions on the Group's index-linked debt. Together, these helped to offset the headwind from lower cost of debt allowances under the tracker within the new UK price controls.	Dividend paid			+1.3
	Share buyback			+0.3
	Movement in goodwill			
	Net debt	(23.9)	(22.9)	-1.0
	Value added			+1.7
	Value added per share			44.7p

1. Includes assets held outside RAV and rate base.

Regulated asset growth

In total our UK regulated asset value (RAV) and US rate base increased by £2.3 billion (7%) to £37.0 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar. The rate of growth at constant currency was 3%.

The UK RAV increased by £0.5 billion, reflecting significant capital expenditure, together with inflation, although at 0.9% RPI, this has had a smaller impact than

Value added in the year was lower than 2013/14 (£2.1 billion or 57.2 pence per share), primarily led by the impact of lower RPI on UK regulated asset growth. RPI inflation for March 2015 was 0.9% compared with 2.5% in March 2014 and National Grid's long-run assumption of 3.0%. Of the £1.7 billion value added in 2014/15, £1,271 million was paid to shareholders as cash dividends and £335 million (excluding £3 million of transaction costs) as share repurchases (offsetting the scrip issuance during the year), with £79 million retained in the business.

in recent years. UK RAV growth also included capitalised efficiencies or performance RAV of £111 million this year.

The Board is confident that growth in assets, earnings and cash flows, supported by improving cash efficiency and an exposure to attractive regulatory markets, should help the Group to maintain strong, stable credit ratings and a consistent prudent level of gearing, while delivering attractive returns for shareholders.

Other performance measures

UK regulated return on equity

The UK RoE has increased 100bps to 13.7%, reflecting particularly strong incentive performance in the Gas Transmission business and further outperformance against our totex targets in Electricity Transmission, achieved through efficiencies within the capital investment programme. This performance represents 360bps outperformance over allowed returns. Our UK RoE does not include the impact of legal settlement benefits of £56 million. If these were included UK RoE would increase by 60bps to 14.3%.

Table of Contents**Strategic Report****Financial review** continued**UK return on equity %**

A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt (RCF/net debt). This is a measure of the operating cash flows we generate, before capital investment but after dividends paid to shareholders, compared with the level of debt we hold. The principal adjustment made to net debt is to include pension deficits. RCF/net debt was 11.2% for the year (2013/14: 10.5%; 2012/13: 11.4%). For the current year we have used this measure to actively manage scrip uptake through buying back shares when supported by sufficient headroom. Deducting the cost of buying back these shares reduces RCF/net debt to 9.9% for the year.

US regulated return on equity

The US RoE has decreased 60bps to 8.4%, reflecting the additional costs incurred this year as a result of the severe winter weather and the additional gas mains leak investigation and repair work required, together with rate base growth.

US return on equity¹ %

Our long-term target range for RCF/net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency.

1. Calculated on a calendar year basis.

Cash generated from operations

Cash generated from operations was £5,350 million (2013/14: £4,419 million). Changes in working capital improved by £360 million over the prior year, principally in the US (£441 million) due to the collection of

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 5.1 times (2013/14: 4.1 times; 2012/13: 3.9 times). Our target long-term rate for interest cover is in excess of 3 times.

high winter 2014 billings and other settlements including Superstorm Sandy reinsurance claims and LIPA receipts. Cash outflows relating to exceptional items were £133 million lower, as the prior year included reorganisation costs in the UK and LIPA MSA transition costs in the US.

Net debt and credit metrics

Our net debt levels will continue to grow for the next few years as we fund our capital investment programmes and enhance our networks. We continue to borrow at attractive rates when needed and the level of net debt remains appropriate for our business.

During 2014/15, net debt has increased by £2.7 billion. This is predominantly due to movements in foreign exchange rates as the US dollar strengthened against sterling. Gross borrowings are relatively consistent year on year, reflecting the current year net refinancing of maturities and bond repurchases, while cash and investment levels have been actively managed down.

With the commencement of the RIIO price controls in 2013 and the slow down in our planned near-term UK capital investment programme as the industry assesses the impact of Electricity Market Reform, we reviewed and restructured the Group debt portfolio. The review resulted in a £924 million bond repurchase programme, of which £295 million was achieved through a cash tender offer for five bonds. The net repurchase cost of £131 million has been presented as exceptional finance costs in the income statement, as noted on page 104.

Return on capital employed

RoCE provides a performance comparison between our regulated UK and US businesses and is one of the measures that we use to monitor our portfolio of businesses. The table below shows our RoCE for our businesses over the last five years:

Return on capital employed %

The UK RoCE has increased from 8.0% to 8.6% in 2014/15. This reflects the strong incentive performance in Gas Transmission and further totex outperformance in Electricity Transmission, together with one-off benefits of legal settlements in the year.

US RoCE has decreased by 40bps in the year to 6.0%, as a result of the additional maintenance to improve reliability and safety and bring regulatory filings up to date, together with rate base growth driven by capital expenditure spend.

Capital expenditure

For the year ended 31 March 2015, capital expenditure of £3,470 million was at a similar level to last year, with reductions in spend in UK Electricity Transmission being offset by increases in capital spend in our US Regulated businesses.

The reduction in spend in UK Electricity Transmission reflected delays in the manufacture of cable for the Western HVDC link and a reduced level of overhead line work,

with a number of projects having completed over the last two years. In addition

Table of Contents

we continue to look for innovative ways to reduce total expenditure (totex) under our RIIO regulatory arrangements while still delivering agreed outputs.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Within our US Regulated businesses, capital expenditure was higher year on year reflecting higher levels of mains replacement work, gas system reinforcement and growth spend, electricity capacity spend and progress on the New England East-West Solution (NEEWS) electricity transmission project.

Our operating profit for the year includes a total estimated in-year under-collection of £64 million (2013/14: £42 million under-collection). Our closing balance at 31 March 2015 was £27 million under-recovered.

Capital expenditure £m

In the UK, there was a cumulative under-recovery of £177 million at 31 March 2015 (2014: under-recovery of £83 million). All other things being equal, the balance will start to be recovered from customers in the year ending 31 March 2016.

Dividend growth

We remain committed to our dividend policy to grow the dividend at least in line with the rate of average RPI inflation each year for the foreseeable future.

In the US, cumulative timing over-recoveries at 31 March 2015 were £150 million (2014: £117 million over-recovery). The majority of that balance will be returned to customers next year.

In addition to the timing adjustments described above, as part of the RIIO price

During the year we generated £2.1 billion of business net cash flow after our capital expenditure programmes. This has enabled the growth of the dividend in line with average RPI, being 2.0% (2013/14: 2.9%; 2012/13: 4.0%), taking into account the recommended final dividend of 28.16 pence.

During the year, the Company has repurchased shares in the market with the overall goal being to reduce the dilutive effect of the scrip as much as possible to the extent that is consistent with maintaining the Group's strong financial position as reflected in its credit rating.

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 166 to 172, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully

controls in the UK, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years time.

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

For our UK regulated businesses as a whole, regulated revenue adjustments totalled £174 million in the year (2013/14: £106 million). This is based on our estimates of: work carried out in line with allowances; in expectation of future allowances; or work avoided altogether either as a result of us finding innovative solutions or of the need being permanently removed.

In the US, accumulated regulatory entitlements to future revenue net of over- or under-recoveries amounted to £1,528 million at 31 March 2015 (2014: £1,024 million). These entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2015, these extend until

recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing.

2071.

Major storms

Despite the very cold winter across much of the US including record snowfall in parts of New England, there were no major storms in 2014/15 or 2013/14.

Table of Contents

Strategic Report

Our people

If we are to achieve our strategic objectives, we need to make sure our employees have the right skills and capabilities.

Safeguarding the future

There is a significant skills challenge facing the engineering profession in the UK. Research by EngineeringUK has highlighted a need for 1.8 million engineers, technicians and crafts people over the period 2012–2022. Around 60% of all new jobs in this period will need science, technology, engineering and maths (STEM) qualifications, yet not enough school children succeed in these areas.

There is a similar challenge in the US where the number of scientists and engineers needed to meet growth and net replacement needs between 2012 and 2022 is 2.3 million, including 1.2 million in the computer occupations and more than 540,000 engineers.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable career with a great future. Our employees act as education ambassadors who volunteer their time for a range of activities in the classroom and at science and engineering fairs, most notably on STEM enrichment, careers education and work experience programmes.

We completed the fifth year of our Engineering Pipeline Program. This is a developmental programme designed to inspire promising students to become engineers and provide them an opportunity for fast tracked employment with National Grid.

We are working with the State University of New York and its network of colleges and universities. The aim is to prepare students for careers in the energy and utilities industry by improving the educational opportunities available to them. We expect this partnership to increase the volume of qualified entry-level candidates looking to join National Grid.

Our US work experience opportunities include six to eight week summer internships for college students, so they can gain work experience with National Grid. A number of these interns start their journey into the energy industry through our Engineering Our Future programme and go on to join our Company.

In the UK, we offer summer internships and also 12 month industrial placements to undergraduates in their penultimate year. These

Our careers education programmes in the UK include Careers Lab, an initiative we developed that was taken up by the charity Business in the Community in November 2014. It links working professionals from a range of sectors with schools to bring the world of work to life for secondary school children. A further initiative is the Engineer Your Future exhibition at London's Science Museum, which opened in December 2014 and explores engineering challenges through interactive games and digital experiences.

During 2014/15, we have expanded our residential work experience programme (balanced 50/50 between girls and boys) to include a non-residential programme for students aged 16-19 who are in sixth form or college and do not have an existing relationship with an employer.

This year, we invested nearly £900,000 in our education outreach, bringing benefits to 70 schools and more than 9,000 students who receive at least one hour of STEM/careers experience with our education ambassadors. We expect this to grow considerably in the UK through Careers Lab.

In the US, we continue to partner with seven local community colleges to deliver energy utility technology training programmes, designed to equip people for jobs in the energy industry. These programmes currently focus on future line workers. We plan to expand them to include technical skills for the gas industry.

We are continuing our partnership with the Center for Energy Workforce Development on its energy industry fundamentals, and we work with veterans through the US Troops to Energy Jobs programme. This is designed to help veterans make the transition from military service to the

programmes offer students the opportunity to experience the culture, working and ethical practices of National Grid before they make the all-important decision to join the organisation as graduates.

Building skills and expertise

During 2014/15, we have worked on boosting the capabilities of our employees in the areas of Performance Excellence (see page 27), stakeholder engagement, customer focus and contract management. We see these capabilities as being crucial in helping us improve our performance and meet regulatory and customer expectations.

More than 900 employees have attended our Performance Excellence programmes; more than 650 employees have attended our stakeholder engagement and customer focus programmes; and around 250 employees have attended our contract management programmes.

Our executive team and senior leaders in the UK and US are participating in a programme to develop performance leadership skills. To prepare for our future engineering skills needs, we have built a T-pylon development facility at our Eakring learning centre in the UK.

We remain committed to investing in our people, providing the training and other support necessary for them to build, maintain and operate our networks safely and reliably, and this year we provided more than one million learner hours of training across our UK and US businesses.

energy/utility industry.

Table of Contents

Promoting an inclusive and diverse workforce

We aim to develop and operate our business with an inclusive and diverse culture, with equal opportunity to all in recruitment, career development, training and reward. This applies to all employees regardless of race, gender identity, nationality, age, disability, sexual orientation, religion and background. Our policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

In the UK we were recognised as a Times Top 50 Employer for Women for 2015 and reached the Gold level in our benchmarking with both Race for Opportunity and Opportunity Now during 2014. Both these campaigns also recognised us as a Top 10 private sector employer. Our Employee Resource Groups (ERGs) continue to support our business goals and participate in events that encourage students to consider careers needing STEM qualifications.

In the US, our ERGs support our business goals and ambitions. They are at the forefront of our inclusion and diversity initiatives including our commitment to hire veterans and people with disabilities, as well as our efforts to promote understanding of unconscious bias.

The table below shows the breakdown by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define senior management as those managers who are at the same level, or one level below our Executive Committee. It also includes those who are directors

Health and wellbeing

Among our programmes for 2014/15 we have worked to address the stigma and discrimination associated with mental health. We signed the UK Government-led Time to Change pledge and have trained a further 92 employees in mental health first aid. We have also helped more than 4,000 of our employees and our service providers staff understand their heart age and run a weight-loss campaign that raised more than £4,000 for Macmillan Cancer Support.

In the US we have refreshed our soft tissue injury programme, aimed at helping reduce muscular skeletal disorders. Our employee opinion survey results continue to show that employees have a growing awareness of our wellbeing programmes.

Volunteering

of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

Our employees continue to support our local communities, sharing their time and expertise on a range of skills-based volunteering and fundraising activities.

In the UK we raised over £500,000 for good causes and provided over 9,000 hours of support to community projects. Our support of City Year now includes a new mentoring programme in Birmingham and we launched Good Leaders, a programme that shares our leadership expertise with the charity sector. In the US, our Power to Serve employee volunteering programme supports our stewardship and safety principles. It seeks to acknowledge existing community service, as well as to create new volunteer opportunities for employees.

Human rights

Respect for human rights is incorporated into our employment practices and our values. See page 185 for more information.

Financial year ended 31 March 2015

Male Female

	Male	Female	Total	%	%
Our Board	8	3	11	72.7	27.3
Senior management	183	58	241	75.9	24.1
Whole Company*	18,554	5,720	24,274	76.4	23.6

* This measure is also one of our Company KPIs. See pages 18 and 19 for more information.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

25

Table of Contents

Table of Contents

Principal operations

Overview of our UK operational businesses during 2014/15

Our UK regulated businesses delivered a strong financial performance in the second year of RIIO. We aim to create value for our stakeholders by focusing on performance and making sure our processes are as efficient as they can be (see Performance Excellence below). Savings generated in the first two years of RIIO will reduce future customer bills by around £200 million.

We have also established a new organisational structure to give stakeholders a clearer picture of how our activities are organised and delivered.

We have responded to concerns about the cost of energy and the security of the UK's energy supply. In evidence to parliamentary inquiries we have explained our role, the services we provide and what those services cost. We have also been working with stakeholders in Europe to plan for the future impact of European Union energy policy on our business.

Our non-regulated businesses have been focused on getting the best value from our existing portfolio and exploring opportunities for future growth. For further information see page 36. We have also signed two new interconnector agreements: with Elia, the Belgian Transmission System Operator, for an

continued management of safety, security and network resilience.

System Operator (SO) progress

Our SO role is described on pages 08 and 11.

The UK faces tightening capacity margins between supply and demand for the next three years. Helping the market to make the right decisions to maintain security of supply has been an important theme in our role as SO during 2014/15.

Following a number of generation plant outages over the winter, the two new balancing services developed to provide additional reserves were tendered as a precaution. Although these additional reserves were not used this year, they have also been tendered to procure additional capacity for winter 2015/16 when margins are predicted to tighten further.

We have continued to work with stakeholders to develop and implement EMR. We completed pre-qualification and auctions for the Capacity Market and the Contract for Difference (CfD) feed-in tariff regime. The capacity market auction this year procured

electricity interconnector between the UK and Belgium; and with Statnett, the Norwegian Transmission System Operator, for NSN Link, the first interconnector between the UK and Norway. These agreements signal the start of the construction phases of these projects.

additional capacity ready for the first year of delivery in 2018/19. Contracts were signed with 25 applicants following the first auction for CfD.

Principal risks

As described in the Internal controls and risk management section (pages 38 to 41), we identify, monitor and manage risks at various levels within our Company. The key risks our UK business faces are organised into a UK regional risk profile which is regularly reviewed by UK senior leadership. The main risk themes currently featured in this profile are:

the risk of changes to the complex political and regulatory agenda for UK and European energy policy development and their potential implications for our business;

challenges associated with making sure the data required to deliver business processes and regulatory requirements is complete, accurate and consistent;

the impact of changes in our business structure and processes on our ability to continue to perform under RII0; and

We have led the development of changes to the gas transmission regulatory framework that will help customers plan their long-term projects through an improved way of reserving capacity. We have also developed a new framework that adds current system operation knowledge to long-term predictions about the future energy landscape. This helps us plan for the right services and products to operate the system in the future.

Priorities for the year ahead

Our role as SO is set to evolve during 2015/16, following the conclusion of Ofgem's Integrated Transmission Planning and Regulation project. As part of this, the SO is expected to undertake a number of new advisory roles. We have a long track record in successfully managing potential conflicts of interest from our SO role and will work closely with Ofgem to make sure this continues.

We will also be engaging further with the industry, aiming to increase opportunities for demand-side participation within the GB market.

Performance Excellence

Performance Excellence is an approach that will help us to achieve our Company objectives by looking for improvements to all of our processes. It aims to save time and make us more efficient so we can deliver better value for our customers and stakeholders – from new ideas that improve processes, to introducing equipment that does things more effectively. For example, in our UK Gas Distribution business, regional Performance Excellence teams are working with our operational teams to identify their common challenges and find the right solutions. As a result we have introduced a new helpdesk service for our Gas Distribution field force. This new service

means technology problems are resolved more quickly, helping them to be more productive and better meet customer needs. See page 35 to read more about Performance Excellence in the US.

Table of Contents

Strategic Report

Principal operations continued

UK Electricity Transmission

What we do

We own the electricity transmission system in England and Wales. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 336 substations.

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

Market context

Although demand for electricity is generally increasing around the world, in the UK it is expected to remain broadly flat over the next five to 10 years.

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

What we ve achieved during 2014/15

The full tunnel network on our London Power Tunnels project has been completed, and the remaining works programme is forecast to complete ahead of schedule and under budget. We have also completed the development of a £164 million asset replacement and customer connection project for Wimbledon.

Our Visual Impact Provision (VIP) project gathered pace. Our policy to make use of the £500 million allowance under RIIO to mitigate the visual impact of our overhead lines in National Parks and Areas of Outstanding Natural Beauty was agreed with Ofgem. A stakeholder advisory group, including representatives of organisations with a national focus on our natural heritage, is helping us choose which transmission lines should be prioritised and how the fund should be allocated.

We made progress on substation and cable construction work for several new Network Rail connections, as well as Crossrail connections in London. These connections are required to support the national railway electrification programme from 2015 to 2017.

We achieved a significant engineering milestone, installing the first ever series compensation device on the UK network. This device, which adds capacity to a transmission circuit, can increase power flows from Scotland. With both National Grid and Scottish Power series compensation in service, the Scotland-England boundary capacity is expected to increase by 1 GW.

We have continued to develop the innovative T-pylon and are considering where it could be offered alongside other connection options when developing new transmission circuits. The first T-pylon has been installed at our Eakring training facility.

We agreed an RPI-linked bank loan facility of £1.5 billion with the European Investment Bank (EIB). This is the largest ever single loan by the EIB and is now available to fund capital investment in National Grid Electricity Transmission plc.

We also deployed new tools and systems to our field workforce, winning the Mobile Innovation category at the SAP UK Quality Awards.

Priorities for the year ahead

Safety: Make sure our suppliers and employees manage their safety performance when working near our transmission assets. This includes seeking evidence that they are using effective safety management systems.

Maintenance: Establish a programme to change the way we plan and deliver all work on our assets by balancing risk, performance and delivery costs.

Hinkley Point C connection: Continue to progress the regulatory submissions needed for the Hinkley Point C connection project to secure the funding for delivery.

Visual Impact Provision: Through our VIP project we will identify the final locations where the visual impact of our networks will be reduced.

Data and technology: Continue to improve how we define and capture the network data

that helps us make better decisions on our assets and respond more quickly to customer demand for new connections.

Table of Contents

UK Gas Transmission

In focus:

40 times

The gas national transmission system operates at pressures up to 94barg around 40 times the pressure of an everyday car tyre.

What we do

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations. In 2014/15 the gas throughput across the system was over 80 billion cubic metres.

Market context

the remainder coming from Norway, continental Europe, or further afield via shipped imports of LNG.

Overall, supply capacity now exceeds peak demand by more than 25%, giving our customers significant flexibility over which sources of gas they choose to meet demand. Newer sources of supply, such as LNG importation terminals and storage sites, can respond to demand more quickly than traditional UKCS supplies. Our network therefore needs to be able to respond to changing day-to-day supply and demand patterns.

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

We are working closely with our customers and stakeholders to meet these operational

The UK's gas market and sources of gas are changing. Domestic demand has fallen over the last five years and a significant increase is not expected in future years. The UK continental shelf (UKCS) now makes up less than half our total gas supply, with challenges. We are focused on continuing to develop our network and services to meet their needs safely, reliably and efficiently.

What we've achieved in 2014/15

We delivered a strong safety performance, particularly in our operations business where we have achieved 24 months (from April 2013) without a single lost time injury suffered by our employees or contractors.

We reached record levels of compressor availability in our network. Operational availability was at 100% several times during the winter, with an average of 96%. This is a rise of 7% on the average for winter 2013/14. It follows targeted investment in our fleet of compressors and improvements to our planning process, maintenance and repair methods.

We received £5.7 million from Ofgem following a successful bid in the Network Innovation Competition for designing and building a robotic device that can inspect below-ground pipework at high pressure installations. The device will help us to better assess asset condition, so we can focus expenditure where it is needed, benefiting gas consumers.

To meet the stricter environmental limits imposed by the Industrial Emissions Directive (IED), our larger gas turbines will need modifying or replacing. We have sought feedback from our stakeholders on the impact of the IED, adapting our proposed solutions in response. This has helped us develop investment options to make sure the network can meet the future needs of our customers and operate as efficiently as possible.

Priorities for the year ahead

Safety: Sustain and improve our safety performance by implementing a new safety culture improvement programme across UK Gas Transmission.

Reliability: Build on improvements we have made this year in compressor availability, extending this across other critical assets in our network to further improve the service we deliver to our customers.

Efficiency: Continue improving end-to-end processes and deliver greater value for customers by being more efficient. Where we create additional capacity, we will look to insource some maintenance work and

increase specialist pipeline services for customers.

Innovation: Use the innovation opportunities available through the Network Innovation Competition and Network Innovation Allowance funding. This will help us to create value for customers and the industry, and to achieve our RIIO-T1 commitments.

Emissions compliance projects: Continue work on existing emissions compliance projects and secure funding for continued works over the remainder of the RIIO-T1 period and beyond.

Table of Contents

Strategic Report

Principal operations continued

UK Gas Distribution

In focus:

What we do

We own and operate four gas distribution networks comprising approximately 131,000 kilometres (82,000 miles) of pipeline. We transport gas from the national transmission system to around

Ofgem is able to make comparisons across all eight networks. It establishes outputs they are expected to deliver so that we all maintain a safe and reliable network; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet their social obligations; and provide an agreed standard of service to consumers and other stakeholders.

Gas consumption in our networks was 260 TWh in 2014/15.

10.9 million consumers on behalf of 37 shippers.

We collaborate with the industry on issues that are common to all networks and customers, such as innovation, safety and the future of networks to deliver outcomes that customers value.

We manage the National Gas Emergency number (0800 111 999) on behalf of all gas distribution networks.

Market context

We manage our networks to keep our customers safe and warm. We are incentivised through RIIO to operate efficiently and deliver services that our customers and stakeholders value.

Gas remains an important part of the current and future energy mix and we are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as bio-methane.

We handled nearly 2.4 million calls during

2014/15 across the emergency number, enquiry lines, appliance repair helpline and meter enquiry service.

What we've achieved during 2014/15

We believe we are making progress towards our ambition to be the best gas distribution business in Britain by 2017. We understand where we need to

However, against a backdrop of increased customer complaints across the industry, our volumes have also increased. To help improve this, a particular focus this year has been on simplifying the process

focus to deliver our RIIO outputs and deliver better customer service.

for customers who want to connect to our networks by improving our website experience and providing them with a single point of contact.

We are investing in our networks to make sure we meet customer and stakeholder needs. This includes replacing approximately 1,450 kilometres of old metal pipelines with more durable materials as part of our mains replacement programme developed with the HSE and Ofgem. In London, we have replaced around 300 kilometres of iron mains, including projects in Battersea and around the City.

We have invested in new mobile technology for our field workforce to increase productivity and provide our supervisors with real-time information. This has also helped improve employee engagement scores and the desire to drive better outcomes for our customers; our field workforce now compares favourably with industry benchmarks.

We have also completed ten commercial bio-methane connections, more than any other UK gas distribution network, including the first 100% food waste plant and the first commercial sewerage connection with Severn Trent Water.

Priorities for the year ahead

Improve our safety performance by further reducing cable strikes, injuries to members of the public and preventing third-party encroachment. This will continue to be an important area of focus.

Overall, we have delivered successfully against our targets to deliver world-class levels of safety performance across our combined field workers and contractor workforce. In terms of cable strikes and injuries to members of the public, although we have missed our targets, we have increased our efforts to make improvements. We have also used innovative technology that has helped reduce excavation volumes, so we can minimise disruption. We have

Continue to use innovative technology to deliver better services that reduce the impact on customers' bills and minimise disruption caused by our work.

also been helping stakeholders such as landowners and the construction industry understand how we protect pipelines and how they can operate safely around them.

During 2014/15, we were recognised by Ofgem as the best performing gas distribution network in understanding our customer and stakeholder needs for the previous year. Our focus in this area has seen over 1,200 fuel poor customers benefiting from an alternative, more affordable method of heating their homes since we have connected them to our gas networks.

Improve our customers experience of planned replacement work projects by working with our partners to improve our processes, data capture and how we communicate and engage with our customers.

Continue to work with government and industry on setting out the vision for the future role of gas in the UK's energy mix and policies that support this role, while considering how domestic smart meters can create value for customers.

Motivate and equip our workforce with the tools and knowledge they need to deliver the services and outcomes our customers value, while increasing productivity.

Table of Contents

Table of Contents

Table of Contents

Principal operations continued

US Regulated

What we do and where we do it

We jointly own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island.

We own and operate gas distribution networks across the northeastern US located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island.

In focus:

3.5m

16bn

3.6m

30 TWh

electricity consumers in New England and upstate New York.

standard cubic metres of gas that we forecast, plan for and procure annually.

consumers receive services from our gas distribution networks, including 26,882 new gas heating customers in 2014/15.

of electricity we forecast, plan for and procure annually across three states.

169km

14,355km

15 year PSA

(105 miles) of underground cable, 520 transmission substations and 644 distribution substations we operate in New England and upstate New York.

(8,920 miles) of electricity transmission system are owned and operated by National Grid.

We own and operate 50 fossil fuel-powered units on Long Island that together provide approximately 3,800 MW of power under contract to LIPA. Our Power Supply Agreement (PSA) with LIPA is for 3,634 MW of capacity, comprising eight dual fuel (gas/oil-fired) steam units at three sites, 11 dual fuel combustion turbine units, and 27 oil-fired combustion turbine/diesel units. Under a separate contract with LIPA, four dual fuel combustion turbine units provide an additional 160 MW of capacity.

Market context

In the US, regulators are focused on system modernisation and the integration of new distributed energy resources. In 2014 we introduced Connect21, our thinking on advancing America's natural gas and electricity infrastructure beyond its 20th century limitations, and creating a more customer-centric, resilient, agile, efficient and environmentally sound energy network. We are working with policymakers, customers and stakeholders to transform the energy industry through initiatives such as Grid Mod in Massachusetts, Reforming the Energy Vision (REV) in New York, and Gas and Electric Infrastructure Safety and Reliability (ISR) plans in Rhode Island.

Table of Contents

Strategic Report

Principle operations continued

US Regulated continued

Principal risks

As described in the Internal controls and risk management section (pages 38 to 41), we identify, monitor and manage risks at various levels within our Company. The key risks our US business faces are organised into a US regional risk profile which is regularly reviewed by the US senior leadership. The main risk themes currently featured in this profile are:

- our ability to manage data integrity and
- systems improvements required to deliver core business processes and regulatory requirements;
- our ability to recover costs through existing rate-making mechanisms and to
- influence the development of the future US utility business model;

gas mains. The NYPSC approved \$414 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers.

The NYPSC also published the results of the regulatory audit of our New York gas companies. These audits are a regular feature of the New York regulatory process. The audit was broadly supportive of our performance and structure and, as is usual, made some recommendations for further improvement. It specifically recommended stronger local leadership and a number of more cost-effective and customer-focused operational enhancements. We have responded with an implementation plan to provide these benefits on behalf of New York customers.

Last year, regulatory audits in New York also identified an unacceptable number of violations of the regulations relating to our gas operations. To improve our regulatory compliance

Our Sustainability Hub in Worcester, MA.

our ability to enhance our US business structure and end-to-end processes to

support an evolved jurisdictional performance environment; and safety performance and network reliability, security and resilience.

performance, we are investing in compliance monitoring systems, adding compliance personnel, and enhancing our training and safety protocols.

Our regulators and customers have heightened expectations around safety and compliance for all gas utilities. We are committed to doing everything we can to meet their expectations and making sure sufficient resources are dedicated to support this priority.

What we've achieved

During 2014/15, we delivered a solid performance and continued with high levels of investment in our networks. As described on pages 18 and 19, we achieved our reliability KPI targets but we still have work to do if we are to improve our customer satisfaction target scores.

We finally completed the stabilisation work on our new enterprise resource planning system. This fixed a number of long-standing problems, such as inefficient payroll processing, which had previously required expensive manual interventions. Long term, the data we can produce with the new systems are an essential foundation to the future performance improvements and regulatory filings that we need for profitable growth in the US.

In 2010, the Massachusetts Department of Public Utilities (MADPU) approved a power purchase agreement between National Grid and Cape Wind for a proposed large-scale, offshore wind farm in Nantucket Sound. In 2014, Cape Wind did not

Building on performance improvements in 2013/14, we saw a reduction in safety incidents in 2014/15. In the past year, there has been a 7% reduction in the number of injuries requiring medical attention and a 26% reduction in the number of cases requiring employees to stay out of work. These reductions result from programmes and initiatives based on risk areas, improved incident investigations and root cause analysis. There is still much work to do as we strive for zero injuries. Soft tissue injury prevention, safety observations, road traffic collisions and slips, trips and falls will remain a focus for us in 2015/16.

Each of our jurisdictions has projects under way to develop economic and environmental health in three ways: by driving economic growth; providing cleaner energy; and advancing innovative technologies. We have highlighted some of our 2014/15 achievements below.

Massachusetts

satisfy certain critical milestone deadlines set out in the power purchase agreement and did not post collateral to extend the deadlines in the power purchase agreement. As a result, the power purchase agreement was terminated in January of 2015. We continue to believe the solution to New England's energy challenge is a diversity of energy sources, which is why we support renewable projects consistent with our goal of reducing emissions while minimising the cost impact on our customers.

In a joint programme with Earth Networks, we purchased 55 Weatherbug stations to donate to our communities in Massachusetts, New York and Rhode Island. These stations provide customers with more localised weather information and we use them to better prepare for and respond to storms. They also contribute to STEM education in giving free real-time local weather data to schools and emergency responders.

We continue to invest more in reinforcing the electricity distribution system and also in replacing

We are preparing to file a grid modernisation plan – a blueprint for the modernisation of the electric system with MADPU in August 2015.

We have announced plans to build, own, and operate an additional 16 MW of solar generation, bringing total solar capabilities in the state to 21 MW.

As of late 2014, we had installed 39.9 miles of new gas mains and added more than 8,400 new natural gas customers.

Table of Contents

New York

We are helping to shape new energy policy in the state through our REV filings. REV is aimed at transforming the electricity energy industry and regulatory practices in New York State.

It is initially pursuing five projects that support public policy objectives and provide broad-based benefits across the state. New York Transco filed with FERC in December 2014 for rate recovery and cost allocation for proposed transmission projects, estimated at \$1.7 billion.

We are adding new electricity capacity and infrastructure to RiverBend, Buffalo, a former industrial brownfield that is bringing growth and jobs to the state. Companies including Solar City and Soraa will bring investment, much needed jobs, and new and advanced energy technologies that could make this region a hub for energy development regionally, nationally and internationally.

We have joined Spectra Energy's \$3 billion proposed Access Northeast pipeline project that aims to significantly increase natural gas capacity to generators in New England. Our three New England electric distribution companies have established memoranda of understanding with project developers to explore the development of an innovative tariff that would enable them to take capacity from the pipeline and release it into the market as needed to mitigate wholesale electricity price spikes.

We are negotiating a power purchase agreement with ReEnergy under which we intend to purchase excess energy from a 55 MW biomass generating facility at Fort Drum in Watertown. This will be the largest renewable energy project in the history of the US Army.

In December 2014, we announced we had joined forces with Anbaric Transmission to develop large-scale HVDC transmission projects to deliver a combination of domestic wind energy and Canadian hydropower to New England load centres. We are currently developing a 1,000 MW hybrid land and sea HVDC project from northern Maine to Greater Boston and a 400 MW underground HVDC project from upstate New York to Vermont under Lake Champlain.

We have begun a two year plan to replace ageing pipes and expand the use of natural gas on Long Island and the Rockaway Peninsula to more than 20,000 new customers. This accelerates the replacement of ageing pipes from the current 50-mile requirement to 95 miles by 2016.

We are partnering with New York City to accelerate the phase out of heavy oils in around 800 buildings. Since the programme's launch in 2011, we have converted over 500 heavy oil buildings. We continue our efforts to convert the few remaining clean heat eligible buildings on Staten Island.

We are working with Eversource Energy in implementing the Greater Boston and New Hampshire Solution to address critical grid reliability needs. We will be investing approximately \$190 million in the Solution for new infrastructure in southern New Hampshire, northern Massachusetts, and the Greater Boston area. We expect the Solution to be in service by 2019.

Rhode Island

The \$93 million Aquidneck Island Reliability Project, known as OnIsland, will bring more reliable power to the nearly 32,000 homes and businesses in Portsmouth, Middletown, and Newport. The project includes two substations, reconfiguration of two transmission lines, local distribution work, and retirement of five substations on the island.

Priorities for the year ahead

We continue our Connect21 journey with these four priorities for 2015/16: Performance Excellence; local operating model; talent and capabilities; and future energy networks.

We have been working with Toray Plastics, one of the largest employers in the state, on customised energy solutions. In 2014 the company opened its second cogeneration system at its 70-acre campus in North Kingstown and we supported them with an energy efficiency incentive of \$15.9 million.

Performance Excellence: We will improve the way we work as teams to become more efficient, innovative, and responsive to our customers' needs in end-to-end processes that include: meter to cash; emergency response; deliver gas and electric; maintain gas and electric; and operate gas and electric.

We are building a new state-of-the-art substation to replace the existing ageing infrastructure at the current South Street Substation, which powers downtown Providence. This coincides with a \$206 million redevelopment of South Street Landing that will turn the vacant former South Street Power Station into teaching and administrative space for Brown University, Rhode Island College and the University of Rhode Island.

Local operating model: We will continue to drive greater accountability and customer service by delivering the services and obligations expected by the 14 operating companies and four jurisdictions that comprise our US business at a cost and performance level agreed upon by each jurisdiction's management team.

Upgrading the power lines in Rhode Island.

FERC

We are part of a joint venture to form New York Transco. This aims to construct, own, and operate incremental electric transmission assets in New York State to improve reliability and reduce congestion.

Talent and capabilities: We will provide employees with the tools and resources they need to achieve the performance measures required by our customers and shareholders.

Future energy networks: We will update and create new electricity and gas networks through design, operational, and regulatory innovations.

Table of Contents

Strategic Report

Principal operations continued

Other activities

Grain LNG

In focus:

14.9%

Approximate

percentage of UK gas

from LNG imports, up

from 9.7% in 2013/14.

Grain LNG is one of three LNG importation facilities in the UK. It operates under long-term contracts with customers and provides importation services of ship berthing, temporary storage and re-gasification in to the national transmission system.

This year, we have continued to explore developments to our LNG services to increase revenue, including the potential to offer ship reloading.

We have started a ship cool-down service. This process helps ships that have been out of service or having maintenance to reload full LNG cargo.

In 2015/16, we will also commission and launch our LNG road tanker loading facility. This will provide tankered LNG to off-grid customers and operators of heavy goods vehicles.

timescale). Intraday markets help market participants adjust their positions better over short time periods.

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market

in Great Britain. It maintains an asset base of around 14.1 million domestic, industrial and commercial meters.

The domestic traditional gas metering business continues to operate in its role as the National Metering Manager, pending the start of the smart metering mass roll-out. This role means customers have a point of contact if they require a meter up until the start of the smart metering roll-out. Tariff caps agreed with Ofgem as part of this role, which took effect on 1 April 2014, will continue to apply until at least the end of the transition to smart metering.

Interconnectors

The England-France interconnector (IFA) is a 2,000 MW HVDC link between the French and British transmission systems with ownership shared between National Grid and Réseau de Transport d'Électricité. The interconnector's availability continued to improve this year following a significant valve replacement programme. Average availability for 2014/15 was 90.62%, up from 83.84% in 2013/14. A substantial proportion of the flow continues to be in the import direction, from France to Great Britain.

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1,000 MW HVDC link between England and the Netherlands. As with IFA, a substantial proportion of the flow is in the import direction from the Netherlands to Great Britain.

Throughout 2014/15, both IFA and BritNed have operated as part of the North West Europe market region. The creation of this region is part of the ongoing development of the EU's Internal Energy Market. IFA and BritNed have entered this region voluntarily ahead of the introduction of new EU-wide rules for cross-border electricity trading.

IFA and BritNed are also involved in the next phase of this regional market that will cover the intraday market timescale (currently it only covers the day ahead

Customer satisfaction scores for NGM remain positive for both its domestic, and industrial and commercial businesses, but we continue to work with our customers on areas for improvement. In our industrial and commercial business we have implemented new software that allows remote customer self-serve access for some services and is expected to improve efficiency. We are also responding to the rapidly changing non-domestic sector by exploring additional products and services.

UK Property

National Grid Property is responsible in the UK for the management, clean-up and disposal of surplus sites, most of which are former gas works. During 2014/15, we entered into a joint venture with the Berkeley Group, known as St William, to develop surplus land for residential use in London and the South East. We have also sold 42 sites and exchanged on several high-profile land disposal agreements with joint venture partners. Our holder demolition and contaminated land clean-up programmes are progressing well, and we are in the process of retendering our estate management outsourcing agreement.

Xoserve

Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is

jointly owned by National Grid, as majority shareholder, and the other gas

distribution network companies. Xoserve celebrated its 10 year anniversary as a company on 1 May 2015.

US non-regulated businesses

Some of our US businesses are not subject to state or federal rate-making authority. These include interests in some of our LNG road transportation, some gas transmission pipelines (our minority equity interests in these are not regulated) and certain commercial services relating to solar installations, fuel cells and other new technologies.

Corporate activities

Corporate activities comprise central overheads, Group insurance and expenditure incurred on business development.

Table of Contents

Table of Contents

Strategic Report

Internal control and risk management

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

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

The Board oversees risk management, and, as part of this role, it reviews the main elements of our process and sets and monitors risk appetite. Risk appetite establishes the amount of uncertainty the Company may seek or accept at any given time when pursuing our strategic objectives.

The Board regularly reviews our internal controls and risk management processes. This year specific consideration was given to the guidance in the new UK Corporate Governance Code 2014 (the New Code) which applies to the Company in the next fiscal year and refinements to our processes will be introduced, as appropriate, over the coming year.

An important feature of our risk management process is that each business function owns and is responsible for managing its particular risks. A central risk management team acts as an advisory function and also provides independent challenge and review. This team partners with the business functions through nominated risk liaisons and collaborates with assurance teams and specialists, such as internal audit and compliance management, to sense check risk information.

Regional senior management regularly review and debate the outputs of the bottom-up process and agree the prioritisation of the risks. The main risks for the UK and US businesses are highlighted in regional risk profiles and reported to the Chief Executive through quarterly performance reports. An overview of current risk themes for the UK and US businesses is provided on pages 27 and 34 respectively.

Our main strategic uncertainties or principal risks for the Company are

Risk management approach

Our Company-wide corporate risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks, as shown in the diagram below. The process is designed to support the delivery of our vision and strategy as described on pages 14 and 15.

Our process involves a continuous cycle of bottom-up review and reporting and top-down review and feedback.

All our business functions participate in the bottom-up risk management process. They identify the main risks to achieving their objectives and the actions being taken to manage and monitor them. They assess each risk by considering the potential worst case credible financial and reputational impacts and how likely the risk is to materialise. The risks we identify are collated in risk registers and are reported at functional and regional levels of the Company. The risk registers also describe the adequacy of our existing risk controls.

developed through top-down discussions with the Executive leadership team. These risks are reported and debated with the Executive Committee and Audit Committee every six months.

The Board participates in an annual risk workshop to make sure that the principal risks remain closely aligned to our strategic aims and that no important risks (or combination of risks) are being overlooked. In addition, the Board considers emerging risks (uncertainties that are still developing and sit outside the principal risks profile) together with our strategy team's annual long-term update.

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

Risk management process

Feedback and reporting

Table of Contents

Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives.

This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. An overview of the key inherent risks we face is provided on pages 173 to 176,

as well as an overview of our key financial risks, which is incorporated within the Notes to our consolidated financial statements on pages 94 to 158.

Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently faced by the Company as we endeavour to achieve our strategic objectives. An overview of these risks is provided below, together with examples of the relevant controls and current mitigating actions we are taking.

Strategic objective Risk description

Example of mitigations

Drive growth

Failure to identify and execute the right opportunities to deliver our growth strategy.

Failure to sufficiently grow our core business and have viable options for new business over the longer term would negatively affect the Group's credibility and jeopardise the achievement of intended financial returns.

We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, as well as the performance of our Group portfolio. We are also looking to access new sources of finance and capabilities through partnering.

We have internal processes for reviewing and approving investments in new businesses, disposals of existing ones and organic growth investment opportunities. These processes are reviewed regularly to make sure our approach

Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.

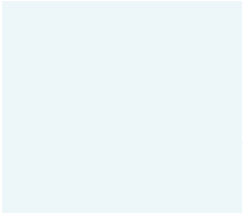
supports our short- and long-term strategies. We undertake due diligence exercises on investment or partnering opportunities and carry out post-investment reviews to make sure we learn lessons for the future.

Engage externally Inability to influence future energy policy.

Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.

In the UK, we are continuing to work closely with DECC and Ofgem on Electricity Market Reform (EMR) plans. We successfully implemented the first Capacity Market Auction and Contracts for Difference Allocation process and are working with the Regulator to finalise the enduring EMR Business Plan to ensure we continue to deliver value under RIIO. We continue to maintain strong relationships with government, engage in consultations, and develop comprehensive stakeholder communication plans. The Board is also continuing to monitor the increasing public debate around the cost, availability, security and sustainability of UK energy supplies.

In the US, we are engaging our external stakeholders about the role of the utility company of the future, under the banner of Connect21. We believe this conversation will help shape the regulatory and fiscal regime in the US in the future. Regulatory proceedings related to utility of the future have been launched in New York (Reforming the Energy Vision) and Massachusetts (Grid Modernization) and our Connect21 aligns well with them. We are continuing to strengthen our jurisdictional focus and are improving our rate case filing capabilities so our businesses can continue to earn a fair and reasonable rate of return. Our rate filings include structural changes where appropriate, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, as described on pages 169 and 172.



We maintain and monitor a reputation watch list at both Company and regional levels to support awareness and proactive management of issues that could cause us reputational harm.

Table of Contents

Strategic Report

Internal control and risk management continued

Strategic objective	Risk description	Example of mitigations
Engage our people	<p>Inability to secure the business capacity, appropriate leadership capability and employee engagement levels required to deliver our vision and strategy.</p> <p>It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.</p>	<p>We have identified the core capabilities that align with our strategic ambition and defined our set of leadership standards.</p> <p>We have filled key leadership roles with a mix of internal and external hires.</p> <p>We are involved in a number of initiatives to help secure the future engineering talent required (see page 24).</p> <p>We continue to develop our succession plans for key roles, including leadership.</p> <p>We continue to actively promote inclusion and diversity.</p> <p>We monitor employee engagement and formally solicit employee opinions via a Company-wide employee survey annually.</p>
Deliver operational excellence	<p>Failure to achieve levels of financial performance required to meet regulatory requirements.</p>	<p>We have a US strategy focused on safety and reliability, customer responsiveness, stewardship and cost competitiveness. Performance measures</p>

The Group operates under a number of regulatory regimes and we must maintain the performance levels required. Failure to achieve the agreed returns could damage our reputation and threaten future growth opportunities and regulatory arrangements.

are tracked and reported monthly. US jurisdictional presidents continue to develop strong relationships with local regulators and communities. A Performance Excellence framework is firmly established to deliver sustainable and innovative performance improvements.

The UK operating model implemented in 2013 to support our performance under RIIO is now established and we continue to roll out our Performance Excellence framework across the business. We actively engage with local communities and non-governmental actors.

We monitor network reliability and customer satisfaction as KPIs, as described on pages 18 and 19.

Failure to deliver appropriate information systems and data integrity.

We implemented a new US enterprise resource planning system at the end of 2012. After a significant effort to combat programme difficulties, the system is now stabilised and enhancements to drive business value are under way.

The Company is increasingly reliant on technology to support and maintain our business-critical processes. We must be able to rely on the performance of these systems and the underlying data to demonstrate the value of our business to our shareholders, and to meet our obligations under our regulatory agreements, and comply with agreements with bond holders and other providers of finance.

We are undertaking a programme to strengthen identified weaknesses in US controls over financial reporting.

We are implementing a global information management framework focusing on data integrity and security.

We completed a data assurance programme last year and actions to improve our data quality and integrity processes based on the results are being managed by the business functions.

We experience a catastrophic/major cyber security breach.

We use industry best practices as part of our cyber security policies, processes and technologies.

Due to the nature of our business we recognise that our critical national infrastructure (CNI) systems may be a

We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with DECC and the Centre for Protection of National Infrastructure

potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.

(CPNI) on key cyber risks and development of an enhanced CNI security strategy and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework.

Failure to prevent a significant process safety event.

We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls.

Safety is paramount. Some of the assets owned and operated by National Grid are inherently hazardous and process safety incidents, whilst extremely unlikely, can occur.

We continue to implement our Group-wide process safety management system to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio.

Table of Contents

Strategic objective	Risk description	Example of mitigations
<p>Deliver operational excellence continued</p>	<p>Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with local legislation and regulation. In addition we identify and adopt good practices for safety management.</p>	<p>We are developing a suite of risk models to assess the risk of specific asset types and support targeted investment to reduce risk.</p> <p>We monitor a mix of leading and lagging process safety indicators and test the effectiveness of our controls with periodic audits.</p>

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the appropriate Board committees as outlined in the Corporate Governance section on pages 42 to 59.

Council’s Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

They are also the basis of our compliance with obligations set by the Sarbanes-Oxley Act 2002 and other internal assurance activities. The New Code, published in September 2014, contained changes related to risk management. These changes have been reviewed against our risk management and internal control systems and processes. Refinements will be implemented, as appropriate, over the coming year.

Reviewing the effectiveness of our internal control and risk management

Each year the Board reviews the effectiveness of our internal control systems and risk management process covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. The latest review covered the financial year to 31 March 2015 and the period to the approval of this Annual Report and Accounts. It included:

the Certificate of Assurance for noting following consideration by the Audit Committee to provide overall assurance around the effectiveness of our risk management and internal controls systems;

where appropriate, assurance from our committees, with particular reference to the reports received from the Audit, and Safety, Environment and Health Committees on reviews undertaken at their meetings; and

assurances about the certifications required under Sarbanes-Oxley as a result of our US reporting obligations.

The Board evaluated the effectiveness of management's processes for monitoring and reviewing internal control and risk management, noting that no significant failings or weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Our internal control and risk management processes comply with the Turnbull guidance on internal control and the requirements of the UK Corporate Governance Code and the Financial Reporting

Internal control over financial reporting

We have specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company.

Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results along with comparisons to relevant budgets, forecasts and prior year results. These are presented to and reviewed by senior management within our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director which consider historical results and expected future performance and involve senior management from both operational and financial areas of the business.

Each month the Finance Director presents a consolidated financial report to the Board.

As part of our assessment of financial controls in the prior year, we identified a number of weaknesses in our US financial control framework. We are making progress in remediating these weaknesses. For more information, including our opinion on internal control over financial reporting, see page 173.

The Strategic Report was approved by the Board of Directors on 20 May 2015 and signed on its behalf by:

[Alison Kay](#)

Group General Counsel & Company Secretary

20 May 2015

Table of Contents

Corporate Governance contents

44	<u>Governance framework</u>	49	<u>Our Board and its committees</u>
44	<u>Our Board</u>	50	<u>Audit Committee</u>
45	<u>Board composition</u>	55	<u>Finance Committee</u>
45	<u>Director induction and development</u>	56	<u>Safety, Environment and Health Committee</u>
46	<u>Board and committee evaluation</u>	57	<u>Nominations Committee</u>
46	<u>Non-executive Director independence</u>	58	<u>Board diversity and the Davies Review</u>
46	<u>Director performance</u>	58	<u>Executive Committee</u>
48	<u>Investor engagement</u>	59	<u>Management committees</u>
48	<u>How our Board operates</u>	59	<u>Index to Directors' Report and other disclosures</u>
		60	<u>Directors' Remuneration Report</u>

Dear Shareholders,

Our Board is responsible for shaping the culture, values and ethics of National Grid, both within the boardroom and across the organisation, by setting the tone from the top and establishing high standards of behaviour.

The changes introduced in 2014 to the UK Corporate Governance Code and the Financial Reporting Council guidance on risk management have highlighted the need for the Board to consider if the current risk management and internal control practices and culture of the Company support the spirit of the changes, not just the letter.

The updates to the New Code have been considered by the Board and refinements approved so we can report on compliance next year as required. It is the intention of the Board that any changes to the frequency and level of reporting received by the Board and Audit Committee in relation to risk management, compliance and internal control as a result of these updates, will also add value to the business.

A review of our compliance procedures is also underway to make sure that we continue to develop and improve our compliance with external reporting obligations. In order to further develop our internal assurance programme, we formed the Engineering Assurance Committee to promote the application of common, consistent, engineering assurance methodologies across the Company.

The Board received an in-depth presentation on security and cyber security which provided a framework for discussion around the threats we face and the effectiveness of our strategy to mitigate the inherent risks. We have made a significant investment over the last five years to improve our capabilities in this area so we can adapt to and address an ever-changing threat landscape. Following this session, we agreed that responsibility for making sure we have an effective process for managing cyber security risk should be delegated to the Audit Committee. You can read more about this on page 50. The Board will continue to receive an annual in-depth presentation on information systems and security, including cyber security.

This year, in addition to Nick Winser and Maria Richter stepping down at the 2014 AGM, we have said goodbye to Philip Aiken and Tom King and have welcomed John Pettigrew and Dean Seavers as Executive Directors in the UK and US respectively. In my role as Chairman and leader of the Board I am responsible for ensuring effectiveness in all aspects of its role. This includes promoting effective relationships and open communication between Directors and encouraging active engagement by all members. This is particularly important as the membership of the Board changes and new relationships are formed. I am pleased to report that the positive outcome of the Board and Committee evaluation process reflects this effectiveness. You can read more about this on page 46 and the rigorous selection process prior to Dean's appointment on page 58.

Clear and concise communications with our shareholders remain a focus for the Board and we hope

that the overview of our business model on page 12 helps to articulate how we create value for you, our shareholders, as well as our other stakeholders.

Sir Peter Gershon

Chairman

Table of Contents

Our Board

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

43

Table of Contents

Corporate Governance

Corporate Governance continued

Governance framework

Compliance statement

The Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2012 (the Code) during the financial year being reported, see page 53 for our explanation in relation to external audit tendering.

This report explains the main features of the Company's governance structure to give a greater understanding of how the main principles of the Code have been applied. The report also includes items required by the Disclosure and Transparency Rules. The index on page 59 sets out where to find each of the disclosures required in the Directors Report and in respect of Listing Rule 9.8.4, together with the Board's sign-off on the report.

UK Corporate Governance Code 2014

The new UK Corporate Governance Code 2014 (the New Code) applies to the Company for the next financial year, 2015/16. In March, the Board considered the current governance arrangements and approved refinements to support compliance with the New Code. Details will be provided in the 2015/16 Annual Report and Accounts.

Fair, balanced and understandable

The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report follows a well-established and documented process, which is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

This process gives the Board comfort that all material statements are accurate and that the Annual Report gives sufficient prominence to negative as well as positive information. The drafting and assurance process supports the Audit Committee and Board's assessment of the overall fairness, balance and clarity of the Annual Report and the Directors' statement on page 78.

Our Board

Our current Board membership is set out on the previous page, with biographical details of Directors on pages 178 to 179. The Directors in place during the year are set out on page 49, together with details of Board meeting attendance. Committee membership during the year and attendance at meetings is set out in each of the individual committee reports later in this report. For further details about the Directors' service contracts and letters of appointment, see page 67 of the Directors' Remuneration Report.

Role of our Board

Our Board is collectively responsible for the effective oversight of the Company and its businesses. It also determines the strategic direction, business plan, objectives and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value.

The Board sets the risk appetite for the Company and takes the lead in areas such as safeguarding the reputation of the Company and financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 38 to 41).

The Board's full responsibilities are set out in the matters reserved for the Board, which were updated in January 2015. These are available on our website, together with other governance documentation.

Our Chairman is responsible for the leadership and management of the Board and its governance. He ensures the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors.

Our Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board. Through his leadership of the Executive Committee, he demonstrates commitment to safety, operational and financial performance.

Our Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Independent of management, **our Non-executive Directors** bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and have an important role in developing proposals on strategy.

Examples of Board focus during the year:

Board strategy session. In addition to time allocated during the year at Board meetings, in January the Board took part in a half-day interactive strategy session, involving a combination of full Board discussions and breakout groups. The Board considered questions raised by the business plan and recent strategic analysis, future opportunities for the Company including business development, mergers and acquisitions and how our core capabilities could be exploited.

The Board found the additional session extremely useful and suggested that further regular updates and discussions would help consolidate its thinking, in particular in relation to the development of a longer-term perspective on potential growth in other geographical areas.

European energy policy. The Board received updates on how changes in the EU will affect and influence the UK energy policy, including Electricity Market Reform, support for interconnectors and Carbon Capture and Storage.

The 2014 UK Winter Outlook. This annual publication confirmed that the Company was in a strong position in respect of gas in the UK, with no heightened concerns, but for electricity, margins were expected to be tight. Updates to the Board confirmed that the UK business had a good understanding of the issues and risks. A robust mitigation strategy, agreed with the UK Government, was approved and implemented.

Interconnector projects. In January, the Board received a presentation on Great Britain's interconnector market and our pipeline of opportunities, including an overview of our two most advanced projects; potential new links to Belgium and Norway. Following feedback provided, the Board approved the final investment decision in relation to the Belgium interconnector in February 2015 and the interconnector with Norway in March 2015.

Emerging risks. The Board received a risk update paper including an overview of the framework that has been developed to track emerging risks and the resulting opportunities and/or threats. Additionally, the Board received an

update on three themes that had emerged from the 2014 risk workshop to make sure that we were sufficiently prepared for "black swan" events (catastrophic events of extremely high impact and extremely low likelihood).

Table of Contents

Updates will continue to be provided to the Board on a regular basis, as appropriate.

Risk workshop. The Board participated in a risk workshop that included an update on the changes introduced by the New Code, the annual risk appetite review and an in-depth review of the current risk profile of the Company. At the workshop, it was agreed that the evaluation of risk appetite should permeate through to the evaluation of all new projects and further work was required in relation to the risk appetite definitions and the Company's risk profile.

Safety updates. Safety is discussed at every Board meeting. The Board receives safety updates in the Chief Executive's report and supplementary to this, the Safety, Environment and Health (SEH) Committee chairman provides an oral summary of matters considered at Committee meetings.

Annual talent management review. The Board noted the progress of the development of capacity, capability and the talent pipeline and the accelerated development programme, which had resulted in long-term career plans being put in place and graduates moving through the Company more speedily than in the past.

Examples of expected Board focus for next year:

regular reviews of safety activities;

mid-term review of our progress and performance under

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities. In January the Board participated in a strategy session; see the previous page.

Updates on corporate governance and regulatory matters are also provided at Board meetings, with details of development and training opportunities for Directors available in our online document library.

Additionally, the Non-executive Directors are expected to visit at least one operational site annually. In 2014 this included visits in the UK to the LNG terminal on the Isle of Grain, the gas distribution control centre, and the customer centre and emergency dispatch based in Hinckley. And in the US, the Directors met with management of the Independent System Operator New England and visited the Brooklyn Queens Interconnect project, a Long Island power station, and other major projects and stakeholders in New York City. Visits to the Long Island power plants and the Western Link project are among those planned for 2015. These visits provide the opportunity for Directors to meet local management teams and discuss aspects of the business with employees.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. See page

RIO;

continued detailed review of strategy and financing;

key US rate case filings;

regulatory compliance;

implications of the Integrated Transmission Planning and

Regulation project on our activities;

review of the political situation following the UK general

election and the impact on energy policy in the UK and EU;

refined reporting to strengthen our assessment and

monitoring of internal control and risk management

following the updates to the New Code;

reviews into UK and US regulation and the major projects

in the UK;

the 2015 UK Winter Outlook; and

results of the 2015 employee opinion survey.

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise and backgrounds.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 58.

67 for more details.

The Board in action

Thinking styles session

Following on from the thinking styles session supported by an external consultant held in 2014, the Board undertook a second session in February 2015.

The session was specifically designed to encourage diverse thinking within the boardroom. New Board members were invited to give their thoughts on how the Company operates. The session covered the benefits of thinking styles for different types of discussion and ways in which the diverse capability that exists within the Board could be harnessed to maximise its effectiveness. The session also reviewed the progress made since the 2014 session.

A thinking styles action has been included in the action plan resulting from this year's Board evaluation; see page 47.

Directors' induction programme

Following Dean's appointment to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arranged a comprehensive induction programme. The programme has been tailored based on his experience and background and the requirements of his role.

Dean's induction programme has included a meeting with our external legal advisors to discuss the duties and requirements of being a listed company director in the UK. He has also held one-to-one meetings with his fellow Directors and senior management, and attended visits to operational sites to build his understanding of the Company and its businesses in the UK and US. His induction will continue over the coming months and will include further operational site visits.

Following the conclusion of the 2014 AGM we said goodbye to Maria Richter and Nick Winser from the Board. Additionally, Philip Aiken stepped down with effect from 25 February 2015 and Tom King from 31 March 2015. We welcomed John Pettigrew as Executive Director, UK on 1 April 2014 and Dean Seavers as Executive Director, US with effect from 1 April 2015.

Details of Therese and John's induction programmes were provided in last year's Annual Report and Accounts. These programmes have continued over the year.

Director induction and development

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. Our Chairman is responsible for the ongoing development of all Directors.

Table of Contents

Corporate Governance

Corporate Governance continued

Board and committee evaluation

As shown in the diagram below, we are in the third year of our evaluation cycle. This year an internal Board performance evaluation was conducted. The evaluation was upward facing with questionnaires completed by non-Board members on the Executive Committee and regular attendees and presenters at Board meetings.

The questions asked covered the following areas:

- time and focus for agenda items;
- the direction/guidance received to support the preparation of papers and presentations;
- coverage by presenters on key topics;
- values and behaviours displayed by the Board and the experience of attending Board meetings;
- level of challenge and questioning by the Directors; and
- diversity of thinking styles present on the Board.

Board discussions

Maximise the effectiveness of Board discussions.

Responsibility: Chairman/Executive Directors/Group General Counsel & Company Secretary

Use a diversity of thinking styles.

Responsibility: Chairman/Board members

Board focus

Continue to manage the strategy agenda.

Responsibility: Chairman/Chief Executive/Group General Counsel & Company Secretary

Progress against last year's actions has been monitored through the year and a commentary against each action is set out opposite.

Committee evaluation

An evaluation of committee performance was also conducted by the chairman of each of the Board committees, as well as the Executive Committee. The process broadly followed that conducted by the Board with questionnaires being completed by regular attendees and presenters at the respective committee

The responses were collated into a confidential and non-attributable report which was presented to the Board in February. At this meeting, the Board considered the report and discussed its performance generally over the past year. The Board confirmed that it had worked well together as a unit, discharged its duties and responsibilities effectively over the year; and worked effectively with the Board committees.

Following this meeting, a draft action plan was prepared and considered by the Board in March. At this meeting, the Board agreed a number of actions for the forthcoming year, as set out below. Progress against these actions will be monitored throughout the year by the Board.

Environment

Optimise the boardroom layout to create a more inclusive environment for members and presenters.

Responsibility: Board members/Group General Counsel & Company Secretary

Continue to create a more open boardroom atmosphere and culture.

Responsibility: Chairman/Board members

meetings. The process followed by the Nominations Committee was slightly different; see The Committee in action box on page 57 for more details.

Following consideration of the results of the evaluation, each committee concluded that it had operated effectively throughout the year and agreed an action plan to further improve performance. Copies of each committee's action plan were provided to the Board and it confirmed that it agreed that each committee had operated effectively.

Progress against the action plans will be monitored through the year by the respective committee and the Board.

Non-executive Director independence

The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service.

At year end, all of the Non-executive Directors, with the exception of the Chairman, have been determined by the Board to be independent.

Director performance

At a private meeting of the Non-executive Directors, Mark Williamson, as Senior Independent Director, led a review of Sir Peter's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and the arrangements he has in place, given he is also chairman of a FTSE 250 company and the Aircraft Carrier Alliance. They concluded that Sir Peter's performance continued to be effective.

Sir Peter met each Director individually to discuss their contribution, performance over the year and training and development needs. Following these meetings, Sir Peter confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and their performance continued to be effective.

Following recommendations from the Nominations Committee the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, all Directors will seek election or re-election at the 2015 AGM as set out in the Notice of Meeting.

Table of Contents

Area	Actions from last year's review	Commentary
Decision making	<p>All important matters requiring approval are to be brought to the Board for early input before a decision is needed.</p> <p>Responsibility: Chairman and Chief Executive</p>	<p>Sir Peter Gershon and Steve Holliday have regularly reviewed the forward business schedule with the Group General Counsel & Company Secretary over the year. The schedule is also included with the papers for each Board meeting to ensure Directors are aware of forthcoming topics for discussion. Following the thinking styles session in February 2015, the schedule was also reviewed to consider if any items could be brought forward early to allow Directors to contribute to thinking and direction at a preliminary stage of the debate.</p>
Board discussions	<p>Greater clarity about the scope of Board discussions to be provided in advance and Board members to be encouraged to question if not clear.</p> <p>Responsibility: Chairman</p>	<p>The Company Secretariat team engaged with external specialists in effective reporting to support the development of the information that goes to the Board. The new reporting framework has resulted in clearer, more concise papers, which has supported improved Board discussion and decision making. Following the successful implementation of the new reporting framework at Board level it has also been rolled out to the Board committees and the Executive Committee.</p>
Degree of challenge	<p>The Executive Directors to speak to the Chairman about what would make them feel more comfortable to challenge and debate, both with the Non-executive Directors and with their fellow Executive Directors at Board meetings.</p> <p>Responsibility: Executive Directors</p>	<p>In February, the Board reviewed progress against the 2013/14 action plan and noted that all Executive Directors felt empowered to input freely at Board meetings and that there was open and honest dialogue. The Chairman will continue to monitor this on an ongoing basis.</p>

Board focus A number of topics were identified that Directors felt needed additional focus by the Board at its meetings, for example cyber risk and the UK political landscape. Ways to improve the focus on each of these topics were discussed at the March 2014 Board meeting and specific actions were agreed and allocated.

Responsibility: various Board members

The Board has taken into account the need for additional focus in certain areas and this has been reflected in the meeting agendas.

Strategy: several papers focusing on strategy and growth have been received by the Board over the year in addition to the Board strategy session. Topics included: review of the UK gas market; US and other market opportunities; exploitation of core capabilities; expansion in and outside our core geographies; and a general update on the interconnectors.

Political risk: political updates are provided in the Chief Executive's report to the Board as appropriate. Additional papers on the politics of UK and US energy and a general update on politics in Europe have been presented to the Board and updates will continue to be provided as appropriate.

Cyber risk: an update on cyber risk and security went to the Board and Audit Committee in September. At this meeting, the Board decided that responsibility for making sure there is an effective process for managing cyber security risk should be undertaken by the Audit Committee. The Board is scheduled to receive an in-depth presentation in November 2015.

Relationship with UK and US regulators: updates on the meetings that take place between our Chairman and the Chairman of Ofgem are provided to the Board. Updates on US regulation and the meetings that take place with the US regulators are also provided to the Board in the Chief Executive's report.

Effectiveness of the Board Actions to improve Board effectiveness were proposed, for example: continue to improve the quality of Board papers;

The new reporting framework described above will also help improve the effectiveness of the Board. As part of the new framework, executive owners of papers

make sure in-depth items for Board consideration highlight the important issues to be discussed; and encourage reporting from management that incorporates more input from the Executive Directors.

Responsibility: Chairman, Chief Executive and Group General Counsel & Company Secretary as appropriate

on the Board agenda have a greater input in to and ownership for the preparation of papers. Management are encouraged to meet with the executive owner at the start of the drafting process to discuss the framework for the paper and owners are required to review and sign off on the final paper prior to submission to the Board or committee.

Table of Contents

Corporate Governance

Corporate Governance continued

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts. This includes meetings, presentations, webinars, attendance at investor conferences across the UK and US, and holding road shows in major investor centres across Europe, the US and Asia Pacific.

The programme provides the opportunity for our current and potential investors to meet with executive and operational management.

In the past year, our engagement programme has focused on clarifying our Group growth expectations and explaining to investors how we expect the Company to continue to perform under the RIIO price controls in the

Debt investors

Over the last year representatives from our treasury team, together with other senior managers from across the business, have met with debt investors in Europe, Canada and the US to discuss various topics such as the full-year results.

We also communicate with our debt investors through regular announcements and the debt investor section of our website. This contains bond prospectuses, credit ratings, materials relating to the retail bond issued in 2011 and subsidiary year-end reports. The website also contains information about the long-term debt maturity profile, so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 95% of the total number of shareholders on our share register, is led by the Group General Counsel & Company Secretary. Shareholders are invited to learn more about the Company through the exhibits at our AGM and the shareholder networking programme.

UK. These areas of focus have been reflected in our regular results presentations as well as in more detail during an investor seminar at our Castle Donington site.

In addition to these engagement activities, we also held a stewardship meeting in July last year. The event provided major investors with an understanding of our performance and an insight into the operation of our Board with a particular focus on the work of our Remuneration and Audit Committees. The event also provided the opportunity for attendees to ask questions and meet members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views and concerns. A copy of the presentation given on the day is available in the Investors section of our website.

Sir Peter also contacted our major shareholders in April 2015 to offer them the opportunity to meet him or the chairman of the Remuneration Committee, Jonathan Dawson, to discuss the Board changes that have taken place during the year and the associated remuneration arrangements.

The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment.

Each year, the Board receives the results of an independent audit of investor perceptions. Interviews with key investors were carried out to establish their views on the performance of the business and management. The findings and recommendations of the audit were discussed in depth by the Board.

The shareholder networking programme includes visits to UK operational sites and presentations by senior managers and employees over two days. UK resident shareholders can apply to take part online via the Investors section of our website.

Annual General Meeting (AGM)

Our AGM will be held on Tuesday 21 July 2015 at The International Convention Centre in Birmingham and broadcast via our website. The Notice of Meeting for the 2015 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

How our Board operates

The Chairman sets the Board's agenda in line with its responsibilities as set out in the matters reserved for the Board. Consideration is also given to the main challenges and opportunities facing the Company, making sure adequate time is available to discuss all items, including strategic issues.

To support discussion and decision making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback and discuss the dynamics of the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and other senior management in attendance and shares the feedback from these meetings with the Chairman.

As set out in the table of actions from last year's Board and committee evaluation process, during the year we engaged external specialists to review our current papers and develop a new reporting framework for the Board and its committees. This has resulted in clearer more

concise reports, allowing more time for discussion and questions.

Table of Contents**Board membership and attendance**

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Sir Peter Gershon	10 of 10
Steve Holliday	10 of 10
Andrew Bonfield	10 of 10
Tom King ¹	10 of 10
John Pettigrew	10 of 10
Nora Mead Brownell	10 of 10
Jonathan Dawson	10 of 10
Therese Esperdy	10 of 10
Paul Golby	10 of 10
Ruth Kelly	10 of 10
Mark Williamson	10 of 10
Nick Winser ²	3 of 3
Philip Aiken ³	9 of 9
Maria Richter ²	3 of 3

1. Tom King stepped down from the Board with effect from 31 March 2015.

2. Nick Winser and Maria Richter stepped down from the Board with effect from

28 July 2014.

3. Philip Aiken stepped down from the Board on 25 February 2015.

Dean Seavers was appointed to the Board with effect from 1 April 2015.

Our Board and its committees

The Board delegates authority to its committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters.

The role and responsibilities of the committees are set out in their respective terms of reference, available on our website. The committee structure, delegation and reporting lines are set out in the diagram below.

In addition to the vertical lines of responsibility and reporting, the committees communicate and work together where required. For example, on some risk matters the SEH Committee collaborates with the Audit Committee. These lines of communication are shown in the diagram below.

Committee agendas and schedules of items to be discussed at future meetings are prepared in line with the terms of reference of each committee and take account of other topical matters.

At committee meetings, items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the committee. Following meetings, the chairman of each committee provides the Board with a summary of

Committee membership during the year and attendance at meetings is set out in each of the individual committee reports later in this report.

Should any Director not be able to attend a Board or committee meeting, the Chairman and committee chairman are informed and the absent Director is encouraged to communicate opinions and comments on the matters to be considered.

the main decisions and discussion points so the non-committee members are kept up to date.

Below the Board committees are a number of management committees, including the Executive Committee.

The Executive Committee has responsibility for making management and operational decisions about the day-to-day running of the Company. Further information on some of the management committees, including the membership and operation of the Executive Committee, is set out on pages 58 and 59.

Reports from each of the Board committees together with details of their activities during the year, are set out on the following pages.

Table of Contents

Corporate Governance

Corporate Governance continued

Audit Committee

Role

Oversees the Company’s financial reporting, and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.

Review of the year

Challenging management on the action they are taking to continue to improve the US financial controls environment has remained a focus for the Committee over the past 12 months. Although there is work still to do, I am pleased to report we are now seeing steady progress in this area.

The US leadership team has been strengthened with the appointment of a new US Chief Financial Officer (CFO). The Finance Director and the US CFO have continued to keep the Committee up to date on progress with regular reports throughout the year on further

Significant issues

The most significant issue the Audit Committee considered in relation to the financial statements during the year were the US financial controls. The Committee also considered the presentation of exceptional items, the treatment of the liability management programme costs and accounting for agreed legal settlements. More detail is provided later in the report.

Other matters reviewed

Examples of other matters the Audit Committee reviewed:

The new Group consolidation system. Regular progress updates on the implementation which is expected to go live later this year.

Lessons learnt from the March 2014 year-end audit. The Committee noted the detailed plans produced by management and the external auditors to deliver a more efficient March 2015 year-end process, including the timing of certain audit testing and the approach to subsidiary statutory and regulatory accounts.

proposed improvements and priorities.

The past year has also seen two other key appointments a new Head of Corporate Audit (approved by the Committee in accordance with its terms of reference) and a new Head of Assurance. The Committee has received reports from both individuals on their initial observations of their respective functions and proposed changes and priorities for the year.

Following the delegation by the Board for oversight of risk management in relation to cyber security, the Committee received its first update from internal (corporate) audit on the process for identifying, mitigating, monitoring and responding to cyber security risks in March.

The Committee has been briefed on the changes to the regulatory environment, in particular the audit tender regulations published by the Financial Reporting Council, the implications of the Competition and Market Authority Order and the final European Commission regulations. We discussed and considered the timing of a tender for the external audit and agreed that an audit tender process should be run later this year. See page 53 for further details.

Committee membership has also undergone some changes. Maria Richter stepped down from the Board at the 2014 AGM. In 2015 we have said goodbye to Philip Aiken and welcomed Paul Golby and Therese Esperdy to the Committee in February and April respectively. I would like to thank Phil for his contribution and support to the Committee over the last six years. We are looking forward to working with Paul and Therese over what will be another busy year.

Sarbanes-Oxley Act 2002 testing and attestations. The Committee received regular updates on the status of testing and considered the impact of deficiencies reported at the May 2014 meeting. During the year, the Company adopted the revised framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Subsequently, a review of all internal controls of financial reporting was undertaken to ensure compliance with the updated framework. See page 41 for the Company's statement on the effectiveness of internal control over financial reporting.

Accounting for rate regulated activities. The Committee endorsed management's response to the discussion paper issued by the International Accounting Standards Board in September 2014 and believe that guidance should be introduced that results in the IFRS financial statements of the Company more closely reflecting its economic performance and position.

Fair, balanced and understandable. The requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and confirmed this view to the Board.

Interim Management Statements (IMS). The Board's decision to cease the publication of an IMS and the impact on the traditional role of the Committee. Depending on the content of future market updates, the Committee will review these prior to publication.

Cyber security risk management. A paper from internal (corporate) audit on the status of our cyber security risk management and external good practice in September 2014. In setting the scope of its new responsibilities, the Committee considered the level of assurance currently provided by internal (corporate) audit and other assurance providers and the frequency and extent of information received. Subsequently, the Committee's terms of reference were amended to include this additional responsibility in relation to the review of the

governance processes over cyber security risk and the Committee now receives a regular update from the Head of Corporate Audit.

Risk management. Half-yearly updates on the management of key risks faced by the Company including changes to the corporate risk profile to reflect Executive Committee risk management discussions.

Table of Contents**Committee membership and attendance table**

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015. Biographical details and experience of Committee members are set out on pages 178 and 179.

Name	Attendance
Mark Williamson (chairman)	8 of 8
Paul Golby ¹	1 of 1
Ruth Kelly	8 of 8
Philip Aiken ²	7 of 7
Maria Richter ³	4 of 4

1. Paul Golby joined the Committee on 25 February 2015.

2. Philip Aiken stepped down from the Board with effect from 25 February 2015.

3. Maria Richter stepped down from the Board with effect from 28 July 2014.

Therese Esperdy was appointed to the Committee with effect from 22 April 2015.

Experience

The Board has determined that Mark:

has recent and relevant financial experience;

is a suitably qualified audit committee financial expert within

Summarised below are the issues which attracted the most focus, and time, of the Committee in relation to the financial statements during the year.

US financial controls. The Committee has continued to devote a significant amount of time challenging management on the action they are taking to continue to improve the US finance control environment. There has been continued focus on embedding the enterprise resource planning system in the US and the benefits this system now brings. The Committee has received regular updates from management on progress against the measures taken to remediate US financial control deficiencies.

In October, a new US CFO was appointed to lead the US finance team. She initiated a granular review of the US finance function to understand the current service levels and key learnings from prior initiatives, including the successes as well as initiatives that did not fully achieve their goals.

The outputs from this review were incorporated into a new US finance function initiative which is intended to address the root cause of issues identified by the review and simplify and standardise processes.

the meaning of the SEC requirements; and
is independent within the meaning of the New York Stock
Exchange listing rules.

Financial reporting

The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication.

An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Company. In this respect, the Committee also considers the estimates and judgements made by management when accounting for non-standard transactions, including the treatment of exceptional items. Two examples of these are set out below.

These considerations are supported by input from other assurance providers such as the group controls, risk management and ethics and compliance teams, the business separation compliance officer, internal (corporate) audit and the SEH Committee, as well as our external auditors. In addition, the Committee also considers reports of the Disclosure Committee. See page 59 for more information on the role of the Disclosure Committee.

The Committee reviews and approves the external audit plan annually (see page 53) and, as part of this, considers the significant risks upon which the external auditors will focus their audit. The independent auditors' report (pages 79 to 84) highlights areas of focus, including some of the issues that the Committee discussed during the year.

Other risks, including the accuracy and valuation of treasury derivative transactions, accounting for pension obligations, accuracy of capital expenditure, revenue recognition and

In January 2015, the Committee received a presentation on the initiative to understand the approach being taken, the stages involved and the underlying issues that the initiative was aiming to resolve. Management sought input and feedback from the Committee on the direction, focus and timing of the proposed initiative. The Committee discussed the proposal and asked questions about the initiative before approving the approach. Regular updates will be provided to the Committee through the year so that progress can be monitored.

During the year, the Committee challenged management in the US on its regulatory filing obligations, noting that due to the system implementation issues, not all filings were made on time. Management presented and, during the course of the year, delivered on a detailed plan to complete the filings and remediate the process. All regulatory filings are now up to date and management communicated with the regulators throughout the process.

Presentation of exceptional items. At the half year and year end, the Committee examined an analysis of items to be classified as exceptional to make sure the items did not include income or costs relating to the underlying business performance.

In particular, the Committee considered the treatment of the liability management programme costs at the year end. Management proposed that the costs associated with the debt redemptions should be treated as exceptional as they were one-off, significant and outside the ordinary course of business. To include this cost in underlying finance costs would otherwise distort users' understanding of the business performance. This proposal was in line with the exceptional items accounting policy in the Annual Report and Accounts and the historical treatment of debt redemption costs.

valuation of environmental provisions were not considered in detail by the Committee during the year as nothing significant arose that warranted Committee attention.

The Committee agreed that the classification of this item was appropriate. See note 4 footnote 8 on page 104.

Table of Contents**Corporate Governance****Corporate Governance** continued

Accounting for agreed legal settlements. During the year, the Company reached negotiated settlement agreements in a legal case. The Company was awarded a total of £113 million (including allowance for legal costs incurred). Due to the size of the impact on the income statement, the Committee agreed with management's decision that this was not considered to be exceptional for the year. The Committee reviewed and challenged the classification of the settlements and agreed that £56 million be recognised in the income statement in the year, with the remainder credited to property, plant and equipment. Management is waiting for confirmation from Ofgem of the regulatory treatment of these awards under RIIO.

Confidential reporting procedures and whistleblowing

The integrity of the financial statements is further supported by the confidential reporting and whistleblowing procedures we have in place. The Committee reviews these procedures once a year to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases.

Internal (corporate) audit

The corporate audit function provides independent, objective assurance to the Audit, SEH and Executive

External audit

The Committee is responsible for overseeing relations with the external auditors, including the approval of fees, and makes recommendations to the Board on their appointment and reappointment. Details of total remuneration to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 102.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

Auditor independence and objectivity is safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors;
- ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within the Company in line with our internal code;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant;

Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic objectives. Assurance work is conducted and managed in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on the progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions. Where control issues are identified, senior leaders may be invited to attend Committee meetings to provide a commentary around the actions they are taking to improve the control environment within their area of responsibility.

In order to meet the responsibility and objectives set out in the Corporate Audit Charter, audits of varying types and scopes are performed as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based and cyclical reviews, together with a small amount of work that is mandated, typically by US regulators.

Inputs to the audit plan include risk registers, corporate priorities, external research of emerging risks and trends and discussions with senior management to ensure that the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually.

providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditor;
the rotation of the lead engagement partner at least every five years;
PwC's internal independence rules and processes which have been designed to exceed professional standards and focus on both personal independence and scope of services;
independent reporting lines from PwC to the Committee and the opportunity to meet with the Committee independently; and
an annual review by the Committee of the structures, policies and practices in place to make sure the external auditors' objectivity and independence is maintained.

A new lead engagement partner will be appointed for the 2015/16 financial year following the completion of the current lead audit partner's tenure.

Table of Contents

Non-audit services provided by the external auditors

In accordance with our policy, non-audit services provided by the external auditors above a threshold of £50,000 require approval in advance by the Committee.

Below this threshold, all requests are approved in advance by the Finance Director and do not require Committee pre-approval. This reduces the administrative burden on the Committee. A full list of all Committee and Finance Director approved non-audit work requests is presented to the Committee annually to ensure the Committee is aware of all non-audit services provided.

Additionally, the Committee receives quarterly reports from management on non-audit services and other consultants' fees to monitor the types of services being provided and fees incurred.

Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors, as required under the Sarbanes-Oxley Act 2002.

Auditor appointment

An annual review is conducted by the Committee of the level and constitution of the external audit and non-audit fees and the effectiveness, independence and objectivity of the external auditors.

The annual review includes consideration of:

- audit quality and the external audit process globally;
- the auditors' performance and delivery against the audit plan;
- the expertise of the firm and our relationship with them including the level of challenge; and
- the results of online questionnaires completed by the

Chairman, Committee members, Executive Directors and senior representatives from the finance team. The questions focused on: the quality of service; sufficiency of resources; planning and execution of the audit; communication and interaction; and overall satisfaction. No material issues were identified.

Total non-audit services provided by PwC during the year ended 31 March 2015 were £0.9 million (2014: £1.7 million), which comprised 7% (2014: 13%) of total audit and audit-related fees (see note 3(e)).

Total audit and audit-related fees include the statutory fee and fees paid to PwC for other services that the external auditors are required to perform, for example regulatory audits and Sarbanes-Oxley Act attestation. Non-audit fees represent all other services provided by PwC not included in the above.

Non-audit services provided by PwC in the year included tax compliance services in territories other than the US (£0.4 million), the significant majority of which relates to the UK.

The Committee considered that tax compliance services were most efficiently provided by the external auditors, as much of the information used in preparing computations and returns is derived from audited financial information. In order to maintain the external auditors' independence and objectivity, management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management.

Audit quality

To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan including the scope and materiality to make sure that PwC have identified all key risks and developed robust audit procedures and communication plans.

The Committee also considers PwC's response to accounting, financial control and audit issues as they arise, and meets with them at least annually without management present, providing the external auditors with the opportunity to raise any matters in confidence.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditors, and recommended to the Board their reappointment for a further year. A resolution to reappoint PwC and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2015 AGM.

Audit tender

PwC have been the Company's external auditors since the merger with Lattice Group plc in 2002, having been the incumbent external auditors of both the merging parties and the audit contract has not been put out to tender since then. Their performance has been reviewed annually by the Committee since that time.

The Committee discussed the implications of the Competition and Market Authority Order requiring FTSE 350 companies to hold an audit tender every 10 years as well as the final European Commission (EC) regulations, which came into EU legislation in June 2014. The Committee noted that based on the EC transitional arrangements, the final year in which PwC can be appointed as the Group's auditors is for the year ended 31 March 2020.

At its meeting in May 2015, the Committee considered the timing of a potential tender for the external audit. The Committee considered the continued US financial controls improvement programme and the services we currently receive from other external audit firms that may be considered in a tender process. It concluded that, firstly, in order to ensure an orderly transition and secondly, to ensure compliance with the EC regulations on the provision of prohibited services, an audit tender process will be run later this year for the audit of the year ending 31 March 2018. PwC will not be invited to tender.

No representatives from PwC were present during the Committee's discussion of the options for a tender of the external audit.

There are no contractual obligations restricting our choice of external auditors and we have not entered into any auditor liability agreement.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

53

Table of Contents**Corporate Governance****Corporate Governance** continued**Risk management and internal control**

The Audit Committee monitors the effectiveness of the risk management and internal control processes during the year through the biannual reports it receives and reports to the Board on the outcome. The review covers all material controls, including financial, operational and compliance controls. Please see page 41 for further details about the review of effectiveness.

In support of our compliance with the New Code, reporting to the Audit Committee on risk management and internal control has been reviewed by the Board and refinements will be adopted for the financial year 2015/16.

Details of our internal control systems, including those relating to the financial reporting process, can be found on pages 38 to 41 and page 173.

Risk management

The Executive Committee discusses the principal risks faced by the Company and updates the corporate risk profile every six months. The approved profile is subsequently shared with the Audit Committee, along with US and UK regional risk profiles, as part of our continuous risk management

Going concern

Our going concern process is an extension of our business planning process, and is further supplemented by our annual budget and other liquidity risk management controls. Our five year business plan and one year budget were reviewed and approved by the Board at its meetings in November 2014 and March 2015 respectively. The Finance Committee provides ongoing oversight of our liquidity policy, which requires us to maintain sufficient liquidity for a rolling 12 month period.

Given our business model, current regulatory clarity and other factors impacting our operating environment, and the robustness of our business planning process and scenario analysis, we have concluded the going concern assessment period is the five years ending 31 March 2019, in line with our business plan. We will reassess this period annually in light of developments in our operating environment, business model and strategic priorities.

Our business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. The business plan models a number of upside and downside scenarios, derived from the risks and opportunities identified, and determines the impact these would have on our results and financial position over the five year period. In addition, we have reviewed and

process.

To continuously improve and remain at best practice levels, the risk management team reviews risk process standards, emerging trends and concepts being driven by the main consultancy firms and seeks to apply these as appropriate. The standards issued by the COSO and the international risk standard ISO 31000 continue to inform the principles of our risk management process.

During the year, we adopted the revised framework issued by the COSO for our internal controls over financial reporting. This introduced specific principles to cover fraud risk assessment and information technology. We also reviewed the procedures for the identification, assessment, mitigation and reporting of risks.

Further details of our risk management systems can be found on pages 38 to 41 and our risk factors are described in full on pages 173 to 176.

Compliance management

Compliance management has been integrated into a new Global Assurance team which incorporates ethics, risk management, licence management and records management with a view to improving visibility and reporting in all areas.

Biannual reports to the Committee focus on compliance with external legal obligations and regulatory commitments. During the year, the Committee requested that additional detail be added to the reports against each of the actual or potential non-compliance items identified to show the person responsible and provide a summary of the actions being taken to resolve the actual or potential non-compliance.

challenged a number of worst case scenarios and their possible remediation.

Our business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we will need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Our business plan also models various KPIs used by lenders and credit rating agencies in assessing a company's credit worthiness. These models indicate that we should continue to have access to capital markets at commercially acceptable interest rates throughout the five year period. To monitor and control risks around access to capital markets, we have policies and procedures in place to help mitigate, as far as possible, any risk of a change in our credit ratings and other credit metrics.

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period of the going concern assessment. For this reason, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to continue to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company.

More detail on our financial risks, including liquidity and solvency, is provided in note 30 to the consolidated financial statements. There have been no major changes to the Group's significant liquidity and solvency risks in the year.

The Committee also received annual reports on the Company's anti-bribery procedures and whistleblowing procedures and reviewed their adequacy. It noted that no material instances of non-compliance had been identified.

Table of Contents

Finance Committee

Role

Sets policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities subject to the risk appetite approved by the Board. It also approves other treasury, tax, pension funding and insurance strategies and, if appropriate, recommends these to the Board.

Review of the year

My first eight months as chairman have been busy but enjoyable. In July, we said goodbye to Maria Richter who stepped down from the Board. I would like to thank her for her contribution to the Committee and for her guidance and support during the handover period.

As part of my induction to the Board and before taking over as chairman of the Committee, I met employees involved in the work of the Committee from finance, treasury, tax, pensions and insurance in the UK and US. I also had several opportunities to meet the

Matters considered

Examples of matters the Committee considered during the year include:

funding requirements and financing for the

business plan;
setting and reviewing treasury policies;
treasury performance updates provided at each

meeting;
UK and US tax updates;
US energy procurement activities;
annual update on the electricity and gas trading

activities in the UK;
credit rating agencies' view on the Company;
foreign exchange policy;
interest rate risk management;
the draft going concern statement for the half

and full-year results prior to consideration by the

Audit Committee and Board;
pensions updates, including funding of the

Company's pension deficits; and
insurance renewal strategy.

Committee membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

wider UK and US tax, insurance and treasury teams which has furthered my understanding of our treasury operations.

Name

Attendance

Therese Esperdy¹ (chairman)

4 of 4

This year, we continued to focus on funding plans to take into account international debt market conditions. The Committee reviewed and agreed a liability management programme which resulted in the repurchase of £0.9 billion of bonds.

Steve Holliday

4 of 4

Andrew Bonfield

4 of 4

Jonathan Dawson

4 of 4

The Committee also received regular updates on negotiations in relation to the European Investment Bank (EIB) loan before agreeing the £1.5 billion loan agreement with the EIB in November 2014.

Ruth Kelly

4 of 4

Maria Richter²

2 of 2

We also considered the financial headroom policy. During the financial crisis, the Committee approved a policy to hold 12 months of liquidity and a minimum sum as cash or liquid assets. The Committee noted that the Group's liquidity was monitored on a regular basis both internally and externally and took into consideration the sources of liquidity. In light of the improved access to liquidity the Committee approved a simplification of the policy.

1. Chairman from 28 July 2014.
2. Maria Richter stepped down from the Board with effect from 28 July

2014.

The Committee in action

Evaluation of Committee performance

External advisors have presented to the Committee throughout the year, including a credit rating agency on their methodology and an update from insurance brokers on the global property insurance market, including the current trading environment, market selection, new risks, client trends and the future outlook for insurance.

The Committee performance evaluation process this year was an upward facing process undertaken by non-Committee members and regular attendees/presenters. This was in line with the process adopted by the other committees (except the Nominations Committee).

The Committee concluded that it had operated effectively throughout the year and agreed an action plan for 2015/16 to further improve performance.

For the year ahead, we will focus on our funding needs, liquidity management, alternative sources of funding and pensions

investment strategy.

An update on the evaluation including the draft Committee action plan was reported to the Board in May 2015. Progress against the action plan will be monitored through the year by the Committee and the Board.

Table of Contents

Corporate Governance

Corporate Governance continued

Safety, Environment and Health Committee

Matters considered

Examples of matters the SEH Committee reviewed during the year include:

Role

The Committee reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors in relation to safety, environment and health. It monitors the resources we use for compliance and driving improvement in these areas and reviews investigations into major incidents.

ongoing monitoring of safety performance and significant incidents in both the US and the UK; lessons learnt and steps taken following a fatality of a member of the public in the UK in April 2014 and a contractor fatality in the US in November 2014; in-depth reviews of incidents in both the UK and US gas businesses where failure to follow

Review of the year

Following Philip Aiken's departure from the Board at the end of February, I have taken over as chairman of the Committee. I have been a member of the Committee for the last three years and over this time we have seen the Company make significant progress in process safety management and the safety performance of both the UK and US businesses, with the US closing the gap on the UK in terms of employee and contractor LTIs. I hope to see further progress in these areas going forwards.

due process led to high pressure releases placing the employees involved in potential danger; compliance with US gas pipeline safety regulations in the light of new regulations and evolving enforcement policies by our regulators; review of the role and set up of the Engineering

We welcomed Andrew Bonfield to the Committee at the beginning of the year. Andrew is a member of the Chief Financial Officers Leader Group of the Accounting for Sustainability (A4S) project, which challenges organisations to demonstrate the commercial rationale for incorporating sustainability into decision making and to manage the related risks and opportunities. He also chairs the Company's Engineering Assurance Committee, which now reports on a six monthly basis to the Committee.

We have continued to focus on process safety and establishing a safety management system across both our UK and US businesses. We have spent time looking at the risks relating to our US LNG assets and the measures being introduced to address these (see The Committee in action below).

Following a fatality involving a contractor at our Rhode Island gas distribution business, we spent time with senior local management considering the causes of the incident and how best to ensure that safety procedures are understood and complied with at all times, by both employees and contractors.

In terms of environmental matters, we have continued to monitor our strategy and approach to sustainability. In particular, we have looked at how we are working with governments and bodies such as the US Environmental Protection Agency to influence regulations that directly impact on our business.

We also considered the Health and Wellbeing strategy and the work being done on data management, improved line management

Assurance Committee which was formed last year to promote the application of common, consistent, engineering assurance methodologies across the Company; conclusion of a review of the interfaces between our IT systems and safety processes; the use of bars in the UK gas distribution business for the break up and removal of gas mains below 6 in diameter, looking at safety issues and available alternatives; and climate change strategy, including performance against emissions targets and carbon budgets.

Committee membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Paul Golby (chairman) ¹	5 of 5
Andrew Bonfield	4 of 5
Nora Mead Brownell	5 of 5
Philip Aiken ²	5 of 5

1. Chairman from 25 February 2015.
2. Philip Aiken stepped down from the Board with effect from 25 February 2015.

training and providing support and guidance to employees to address levels of absenteeism.

The Committee in action

US LNG assets

As part of its focus on process safety and the management of major hazard assets, the Committee has spent time with the US business looking at the risks surrounding its LNG assets, as a number of these assets are located close to areas that have pockets of relatively dense population.

The Committee considered the possible risk reduction measures for two key sites, Commercial Point in Massachusetts and Providence in Rhode Island, where the risk levels had been established to be highest. Philip Aiken visited both sites and members of the Committee received additional training on LNG process safety risks and the relevant risk assessment methodologies.

Over the following 12 months the Committee, through regular reports, oversaw the implementation of the measures proposed, including the installation of automatic shutdown mechanisms which was completed at these plants in June 2014. The Committee also reviewed the proposed timetable for dike redesign and construction to improve containment of LNG escapes in the event of an incident and recommended completion be brought forward by several months.

Table of Contents

Nominations Committee

Matters considered

Examples of matters the Nominations Committee considered during the year include:

Director appointments and leavers, see page 58 for details of the Executive Director appointment process; Board and committee membership following changes to the composition of the Board; the executive succession planning focusing on the identification, development and readiness of

successors to the Executive Committee in particular; review of Sir Peter's performance as Chairman, led

by Mark Williamson, the SID; the proposed structure for the UK business; feedback on the key issues to be covered by the

talent update paper to the Board to provide focus for

the discussion; and the Committee's performance; see The Committee

in action below.

Role

Responsible for considering the structure, size and composition of the Board and committees, and succession planning. It also identifies and proposes individuals to be Directors and executive management reporting directly to the Chief Executive, and establishes the criteria for any new position.

Review of the year

Succession planning continues to be an important responsibility of this Committee, and is reflected in the time spent on the topic this year. The process of building a strong and effective Board requires a good balance of continuity and refreshment.

Committee membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name

Attendance

	Sir Peter Gershon (chairman)	5 of 5
As described in my foreword to the Corporate Governance report, during the year we have undertaken a rigorous recruitment process to select Dean Seavers as a successor to Tom King, a key appointment to the Board. Details of our process are included later in this report on page 58.	Nora Mead Brownell	5 of 5
	Jonathan Dawson	5 of 5
	Therese Esperdy	5 of 5
	Paul Golby	5 of 5
Balance is an important consideration in recruitment, not only in terms of the number of Executive and Non-executive Directors, but also in terms of the range of expertise and backgrounds. In setting the specification of the role, we reviewed the existing skills, experience and diversity of the Board, including diversity of thinking styles, and identified areas that were essential or highly desirable in potential candidates.	Ruth Kelly	5 of 5
	Mark Williamson	5 of 5
	Philip Aiken ¹	4 of 4
	Maria Richter ²	1 of 1

The fit with current membership and how the individuals combine to add value was also taken in to account in the decision making process. Dean brings valuable skills and experience that complement the existing Board members and provides a fresh perspective and challenge to Board discussions.

1. Philip Aiken stepped down from the Board with effect from 25 February 2014.
2. Maria Richter stepped down from the Board with effect from 28 July 2014.

Last year we set out eight measurable objectives to support our Board diversity policy. We have conducted our annual review of the policy and I am pleased to report that we are on track against the objectives we set.

We currently have 27.3% women on our Board and 24.1% in our senior management population. We have

The Committee in action

Evaluation of Committee performance

The Nominations Committee performance evaluation process took a slightly different approach to the evaluations for the Board and other committees. Committee members were asked to provide feedback on how effectively it had dealt with the main topics considered in the last year and its duties and responsibilities; how it had worked together as a unit; and the strengths and weaknesses of the Committee and how these could be addressed by the action plan.

included examples of how the Company supports women throughout our businesses on page 25.

Following the changes in Board membership, the composition of the committees was also reviewed. Paul Golby has become chairman of the SEH Committee and joined the Audit Committee as a member in place of Philip Aiken to maintain continuity between the two committees.

The Committee also considers succession planning over the long-term, for both Executive and Non-executive positions, to ensure that we have the right mix of skills and experience as the Company evolves and so that change can be effectively managed.

Following consideration of the Committee's performance over the year and the above questions, the Committee concluded that it had operated effectively throughout the year and agreed an action plan for 2015/16, which included refinements to the appointment process of future non-executive and executive directors to make sure that we continuously improve our robust approach, including briefings for Non-executive Directors on their role in the selection and appointment of executive directors.

Additionally, the time spent discussing senior executive succession planning will be reviewed to make sure that Committee input continues to be provided, as appropriate, to support senior appointments.

An update on the evaluation including the draft Committee action plan was reported to the Board in May 2015.

Table of Contents**Corporate Governance****Corporate Governance** continued**Appointment process****Executive Director**

The recruitment process undertaken for the appointment of Dean Seavers was formal, rigorous and transparent. The Nominations Committee appointed Korn Ferry as the search consultancy, and the following process was undertaken:

with input from the Committee members, a role and person specification was prepared;

Korn Ferry conducted initial searches, meeting eight potential candidates and shortlisted three candidates;

a series of interviews of the shortlisted candidates were

conducted by Sir Peter Gershon, Steve Holliday,

Andrew Bonfield, Mark Williamson, Nora Mead Brownell

and Mike Westcott (the Group Human Resources Director);

following a review of the combined ratings from all the

interviewers, the Nominations Committee selected two

Where appropriate, we will assist with the development and support of initiatives that promote gender and other forms of diversity among our Board, executive and other senior management.

Objective met see page 25 for further details.

Where appropriate, we will continue to adopt best practice in response to the Davies Review.

Ongoing as appropriate.

We will review our progress against the Board diversity policy annually.

Objective met ongoing.

We will report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.

Objective met ongoing.

We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.

Objective met ongoing.

Progress against the objectives and the policy will continue to be reviewed annually and reported in the Annual Report and Accounts.

candidates for further consideration;

final interviews with the two candidates were carried out

by Steve Holliday, Nick Winsler, John Pettigrew, Nora

Mead Brownell and members of the Executive

Committee;

following discussion, the Nominations Committee recommended Dean Seavers as its preferred candidate

for appointment to the Board, noting that all members

had met Dean; and

the Board approved the appointment as recommended.

In addition to providing external search consultancy services to the Company, Korn Ferry also provided IT consultancy, e-learning services and coaching for senior management.

John Pettigrew was appointed to the Board with effect from 1 April 2014. A description of the process undertaken in relation to his appointment was provided in the 2013/14 Annual Report and Accounts.

Board diversity and the Davies Review

At National Grid, we believe that creating an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board.

It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The Committee in action

During the year, the Executive Committee reviewed and discussed a proposed joint venture with the Berkeley Group. The strategic aim was to unlock value in our surplus London property portfolio and transform redundant land to help meet the current housing and commercial needs of London.

The proposal was initially presented to the Committee for consideration. Feedback was provided, with requests for further information and clarification on aspects of the proposal. Committee members then worked closely with management and specialist teams to develop the proposal.

The proposal returned to the Committee for review and was approved for recommendation to the Board. Following presentation and review at its November meeting, the Board gave final approval of the arrangement. The joint venture, called St William Homes, was formally announced in November.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external

Our Board diversity policy promotes this and reaffirms our aspiration to meet and exceed the target of 25% of Board positions being held by women by 2015, as set out by Lord Davies.

non-executive directorships, giving them valuable board experience.

We currently have 27% women on our Board and 22% women on our Executive Committee. The number of women in senior management positions and throughout the organisation is set out on page 25 along with examples of the initiatives to promote and support inclusion and diversity throughout our Company.

The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and every member is kept up to date with business activities and developments.

During the year, the Committee reviewed the Board diversity policy and progress made against the objectives which were approved to support the implementation of the policy as set out below:

The Board aspires to exceed the target of 25% of Board positions to be held by women by 2015.

Objective met we currently have 27% women on our Board.

All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.

Objective met John Pettigrew and Dean Seavers were appointed on merit.

We will only engage executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity.

Objective met Korn Ferry are signed up to the code.

Table of Contents

- 1 Steve Holliday, Committee chairman
- 2 Andrew Bonfield, Finance Director
- 3 Stephanie Hazell, Group Strategy & Corporate Development Director
- 4 Alison Kay, Group General Counsel & Company Secretary (see page 179 for her biography)
- 5 David Lister, Chief Information Officer
- 6 George Mayhew, Group Corporate Affairs Director
- 7 John Pettigrew, Executive Director, UK
- 8 Dean Seavers, Executive Director, US (joined the Committee on 1 April 2015 to replace Tom King)
- 9 Mike Westcott, Group Human Resources Director

Membership stated as at 1 April 2015.

Management committees

To help make sure we allocate time and expertise in the right way, the Company has a number of management committees, which include the

The Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

The Committee is chaired by the Finance Director and its members are the Group General Counsel & Company Secretary, the Global Tax and Treasury Director, the Group Financial Controller, the Director of Investor Relations, the Head of Corporate Audit and the Deputy Group General Counsel, with other attendees as appropriate.

Index to Directors Report and other

disclosures (starting on page indicated)

- AGM page 48
- Articles of Association page 177
- Audit information page 78
- Board of Directors page 43
- Business model page 12
- Change of control provisions page 184
- Code of Ethics page 184
- Conflicts of interest page 184
- Contractual and other arrangements page 166
- Directors indemnity page 185
- Directors share interests page 72
- Directors service contracts and letters of appointment page 67
- Diversity page 25
- Dividends page 02
- Events after the reporting period page 180
- Financial instruments page 95
- Future developments page 06
- Greenhouse gas emissions page 18

Disclosure Committee, Global Ethics and Compliance Committees and the Global Retirement Plan Committee. These management committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated.

Disclosure Committee

The role of the Disclosure Committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of the disclosures made whether in connection with our presentations to analysts, financial reporting obligations or other material stock exchange announcements, including the disclosure of price sensitive information.

This year the Committee met to consider the announcements of the full and half year results and the July 2014 Interim Management Statement (IMS) and reported on the matters arising to the Audit Committee. In doing so it spent time considering the Company's disclosure obligations relating to identified weaknesses in internal controls over financial reporting in the US, and whether these should be considered material for the Company as a whole, and the process for the publication of unaudited year-end financial results.

The Committee also considered the Company's disclosure obligations relating to delays in cable manufacturing and the consequential impact on capital expenditure for the West Coast HVDC Link as well as the accounting treatment and disclosure for agreed legal settlements.

Following the removal of the requirement to publish an IMS, the Committee will review the investor newsletters prior to publication to the extent they contain updated technical guidance on the Company's performance or other price-sensitive information.

[Human Rights](#) page 185
[Important events affecting the Company during the year](#) page 04
[Internal control](#) page 38
[Internal control over financial reporting](#) page 41
[Listing Rule 9.8.4 R cross reference table](#) page 185
[Material interests in shares](#) page 180
[People](#) page 24
[Political donations and expenditure](#) page 185
[Research and development](#) page 185
[Risk management](#) page 38
[Share capital](#) page 181

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing, and Disclosure and Transparency rules, comprising pages 06 to 75 and 164 to 191, was approved by the Board and signed on its behalf by:

[Alison Kay](#)

Group General Counsel & Company Secretary

Company number 4031152

20 May 2015

Table of Contents**Corporate Governance****Directors Remuneration Report****Annual statement from the****Remuneration Committee chairman****Overview**

Last year, over 96% of shareholders voted to approve a new remuneration policy for National Grid. Although the policy is not subject to shareholder vote again this year, we have reprinted it on pages 62 to 68 for ease of reference. The new policy followed an extensive review by the Remuneration Committee to assess how the remuneration framework needed to change to reflect developments in National Grid's business – the introduction of a new eight year regulatory framework in the UK (RIIO), and the continued evolution of our US business.

National Grid's shareholder returns are earned progressively through two main contributing factors. First, through careful management of long-term assets and their financing; and second, by building for future returns through a substantial, continuing and well-executed programme of long-term capital investment in regulated and non-regulated operations. Our aim was to make sure that shareholders' and executives' longer-term interests are clearly aligned through properly focused incentive plans and by

The Remuneration Committee believes that the policy endorsed last year by shareholders is fully aligned with the Company's strategy and with the experience of shareholders in general. It also believes that, based on our appraisal of performance against our demanding targets to date, the policy is not inflationary compared with previous arrangements. We will, however, continue to reassess remuneration policy and targets for future awards so that we can remain confident they are still meeting the objectives set by the Committee.

Performance for the year**APP**

National Grid has achieved another year of strong financial performance in the UK and solid performance in the US with record investment levels. The financial measures for the APP were adjusted EPS and either Group RoE, UK or US RoE depending on role. At 60.6 pence, the adjusted EPS figure for APP was up 6.3 pence (12%) on 2013/14. The EPS figure used for the APP calculation differs slightly to the reported EPS figure of 58.1 pence as it is adjusted for the impact of timing and actuarial assumptions on pensions and other post-employment benefits (OPEB). Group RoE was 11.8%, ahead of last year's 11.4% result. Our UK RoE was 14.3%, including the benefit of a legal settlement referred to in the report of the Audit Committee on

requiring executives to have a significant shareholding in the Company. In summary, we concluded that:

there should be a significant weighting towards longer-term incentives and longer-term shareholding exposure for senior management through a reduction in the potential maximum Annual Performance Plan (APP) level, and an increase in the potential maximum Long Term Performance Plan (LTPP) level;

the bulk of remuneration should be paid in National Grid shares;

senior executives should be required to have a significant mandatory shareholding (500% of pre-tax salary for the CEO and 400% for other Executive Directors) and that no shares could be sold (except for meeting the tax on vesting) until the mandatory shareholding level was attained;

shares that vested under the LTPP, following the three year performance measurement period, had to be retained for a further two years, irrespective of whether the mandatory shareholding level had been attained; and

the metrics for LTPP performance should change to Return on Equity (RoE) and value growth. RoE provides a measurement of management's performance in generating profit from the business, and value growth captures management's longer-term performance in creating shareholder value.

We were clear that the new arrangements must only deliver higher rewards when executives had achieved a commensurately stronger performance. We believe that we have set threshold, target and stretch levels of performance accordingly. We also wanted to make sure that our commitment to increasing the annual dividend by at least RPI for the foreseeable future – an important element in shareholders' total return – was linked to executive remuneration. The Committee, therefore, made it explicit that it had the power to reduce LTPP vesting if the Company failed to honour the dividend commitment, irrespective of the level of vesting resulting from the performance against the LTPP targets set by the Committee.

page 52. In the US, our RoE was 8.4%, which was slightly down on last year. As a result, in respect of financial metrics for the APP (representing 70% of the value of the award), we have made awards of between 50% and 100% of the maximum potential to the Executive Directors. The balance of the APP award is represented by performance against personal objectives set by the Remuneration Committee. As a result, we have made APP awards to the Executive Directors of between 64% and 119% of salary. Details of each Executive Director's APP award are set out on page 70. This is the first year of the new policy for maximum APP payments, with the maximum being reduced from 150% of salary (for the 2013/14 awards) to 125%.

LTPP

2014 was the first year in which the maximum potential for the LTPP awarded during the year was increased in line with the new remuneration policy from 225% to 350% of salary for the Chief Executive and 200% to 300% of salary for the other Executive Directors. This is a three year plan and the performance outcomes will only be determined in July 2017. In 2014/15, Group RoE and value growth were both on target in relation to the 2014 LTPP parameters, with UK RoE around stretch, and US RoE below threshold.

The LTPP that vested during 2014/15 was that awarded in 2011. This included three performance measures: adjusted EPS; relative total shareholder return (TSR); and UK and US returns. The EPS measure vested at 31%, reflecting EPS growth just above the threshold target for this measure. The TSR measure vested at 98.3%, which reflects an annualised return to shareholders of 18.9% over the period. The UK and US returns measures are expected to vest at 100% and 25.9% respectively, reflecting strong operational performance in the UK, including the first two years of RIIO, and the impact of rate base growth and higher winter related costs in the US. As a result, the 2011 LTPP vested at between 46% and 66% for the Executive Directors. Details of each Executive Director's vested LTPP are set out on pages 70 and 71.

Future targets

Details of future targets and historical performance are disclosed each year in respect of the LTPP. Details of historical performance against targets are disclosed each year in respect of the APP. We provide these details on pages 70 to 72 and page 74. Taking account of this year's performance, as well as the challenges

Table of Contents

ahead, after careful consideration the Committee has decided to retain the same weighting of performance metrics and the same targets for the 2015 LTTP as last year and the same framework of metrics for the 2015/16 APP awards. The Committee believes that the targets for these metrics set appropriately demanding levels for executive performance. For the 2015 LTTP, the maximum payout will require an average annual Group RoE of 12.5% and an average annual value growth of 12% over the three year performance period. We will again review performance against metrics next year to judge whether any changes should be made to the weighting of the metrics or to the targets underlying the incentive in future awards.

Executive Director shareholdings

Executive Directors are now required to build up and hold a significant shareholding in the Company (500% of gross salary for the CEO and 400% for the other Executive Directors). Steve Holliday's current shareholding is significantly above his shareholding requirement. The other Executive Directors, due to their relatively short time in the role, have not yet reached their increased level of shareholding requirement. On current projections, Andrew Bonfield and John Pettigrew should reach their required shareholding in 2017 and 2018 respectively. As Dean Seavers was only appointed to the Board on 1 April 2015, he is expected to take somewhat longer to reach his required shareholding.

to the wider workforce and inflation, subject to his performance. The Committee has decided to award him a 7% increase in salary from 1 June 2015 with further above inflation increases planned in the future to bring him closer to the market rate for his role, subject to his ongoing performance.

Conclusion

The Committee considers that the remuneration earned last year by Executive Directors is a fair reflection of the value achieved for shareholders. Their remuneration is, however, in a transitional phase since the APP outturn reflects a lower maximum potential (125% of salary versus 150% previously) while the level of LTTP vesting reflects both the previous policy limits and also the previous bases of measurement. This transitional phase will continue until 2017 when the last element of the 2013 LTTP finally vests and the 2014 LTTP (under the new policy) matures. We will report in detail on each element during this period to give shareholders as clear a view as is possible about the underlying performance of the new policy. This year the Committee is not seeking any changes to remuneration policy, so the only shareholder vote on remuneration is an advisory vote on the Directors' Remuneration Report (Resolution 16). We believe we have correctly and fairly implemented the approved policy during the past year. We also believe that, while it is too early to be definitive, the new incentive arrangements that we initiated last year are beginning to prove their merits. On behalf of the Committee, I commend this report to you and ask for your support for the resolution at the Annual General

Executive Director changes

Nick Winser stepped down from the Board at the 2014 AGM and will leave the Company at the end of July 2015 when his role will be redundant. Details of his termination payments are summarised on page 72. In October last year, it was announced that Tom King would also leave the Company at the end of March 2015 and would be succeeded as an Executive Director and President of National Grid's US business by Dean Seavers. Tom King's termination payments are also detailed on page 72. I confirm that all such payments to Nick Winser and to Tom King are in line with approved policy.

Dean Seavers joined the Company on 1 December 2014, and joined the Board on 1 April 2015, with a starting salary of US\$1,000,000. He will be eligible for a prorated APP in respect of 2014/15 and also received an award of 300% of salary in respect of the 2014 LTTP. In addition to his starting package, he also received compensation for bonuses from his former employer that have been foregone amounting to US\$250,000 paid on joining and a further US\$250,000 to be paid one year later. He is a member of the US Defined Contribution Core Plan with Company contributions based on a percentage of salary and his APP award and a 401(k) plan match. All of these arrangements are in line with the approved policy on recruitment remuneration.

Salaries

For the year ahead, the Committee has awarded a salary increase of just below 1% to both Steve Holliday and Andrew Bonfield which is less than the 1.9% annual salary budget agreed for the 2015 managerial salary review in the UK. Dean Seavers will not receive any salary increase from 1 June 2015 which reflects the decision to have a 0% annual salary budget for the 2015 managerial salary review in the US.

John Pettigrew joined the Board on 1 April 2014 with a starting salary of £475,000 and he did not receive any salary increase from 1 June 2014. In line with the policy on recruitment remuneration, his salary was set below the

Meeting.

Directors remuneration policy approved by shareholders in 2014

The full Directors' remuneration policy approved for three years from the date of the 2014 AGM held on 28 July 2014 is shown on pages 62 to 68 for ease of reference only. **A shareholder vote on remuneration policy is not required in 2015.** Please note that the information shown has been updated to take account of the fact that the policy is now approved and current rather than proposed. The tables showing the total remuneration opportunity on page 68 have also been updated to take account of Board departures and joiners and June 2015 salary levels. A copy of the remuneration policy is available on the Company website at investors.nationalgrid.com/reports/2013-14 (pages 60 to 66).

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

The Committee will honour any commitments made to Directors before the policy outlined in this report came into effect.

Our peer group

The Committee benchmarks its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward benchmarking is the FTSE

market rate for equivalent roles. In the report last year, the Committee indicated that it would exercise its discretion in line with the policy to increase his salary towards market level by way of future increases in excess of those awarded

11-40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Table of Contents

Corporate Governance

Directors Remuneration Report continued

Approved policy table Executive Directors

Salary Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level.	No prescribed maximum annual increase.	Not applicable.
They are generally reviewed annually. Salary reviews take into account: business and individual contribution; the individual's skills and experience; scope of the role, including any changes in responsibility; and	Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility; progression in the role; and alignment to market level.	

market data in the relevant comparator group.

Benefits

Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>Benefits provided include:</p> <ul style="list-style-type: none"> company car or a cash alternative (UK only); use of a driver when required; private medical insurance; life assurance; personal accident insurance; opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and opportunity to participate in the following HM Revenue & Customs (UK) or Internal Revenue Service (US) tax advantaged all-employee share plans: <p>Sharesave: UK employees may make monthly contributions from net salary for a period of 3 or 5 years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period.</p>	<p>Benefits have no pre-determined maximum, as the cost of providing these varies from year to year.</p> <p>Participation in tax approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.</p>	<p>Not applicable.</p>

Share Incentive Plan (SIP): UK

employees may use gross salary to purchase shares. These shares are placed in trust.

Incentive Thrift Plans (401(k) plans): US

employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions.

Employee Stock Purchase Plan (ESPP)

(423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price.

Other benefits may be offered at the discretion of the Committee.

Table of Contents

Pension

Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>Pension for a new Executive Director will reflect whether they are internally promoted or externally appointed.</p> <p>If internally promoted:</p> <ul style="list-style-type: none"> retention of existing DB benefits without enhancement, except for capping of pensionable pay increases following promotion to Board; or retention of existing UK DC benefits or equivalent cash in lieu; or retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. 	<p>UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one thirtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided.</p> <p>UK DC: annual contributions of 30% of salary. Life assurance provision of four times pensionable salary and a spouse's pension equal to one third of the Director's salary are provided on death in</p>	<p>Not applicable.</p>

service.

If externally appointed:

UK DC benefits or equivalent cash in lieu;
or

US DC benefits plus 401(k) plan match.

Andrew Bonfield, John Pettigrew and Dean Seavers are treated in line with the above policy.

Steve Holliday and Nick Winser are provided with final salary pension benefits. For service prior to 1 April 2013, pensionable pay is normally the base salary in the 12 months prior to leaving the Company. For service from 1 April 2013 increases to pensionable pay are capped at the lower of 3% or the increase in inflation. The pension scheme rules allow for indexed prior salaries to be used for all members. They participate in the unfunded scheme in respect of benefits in excess of the Lifetime Allowance.

Tom King participated in a qualified pension plan and in an Executive Supplemental Retirement Plan. These plans were non-contributory, cash balance and final average pay plans. Tom's benefits included compensation to buy out entitlements from his former employer that were lost on recruitment to National Grid.

In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.

US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62 (at age 55 in Tom King's case). For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55).

US DC: 9% of base salary plus APP with additional 401(k) plan match of up to 4%.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

63

Table of Contents

Corporate Governance

Directors Remuneration Report continued

Annual

Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Performance Plan

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>Performance metrics and targets are agreed at the start of each financial year. Performance metrics are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June.</p>	<p>The maximum award is 125% of salary.</p>	<p>A significant majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role specific.</p>
<p>For APP awards made in 2013/14, 50% of any award was deferred into shares in the Deferred Share Plan (DSP). The DSP has no performance conditions and vests after three years, subject to continued employment. These shares are subject to forfeiture for leavers in certain circumstances.</p>		<p>The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues.</p>

The DSP has been discontinued for APP awards made in respect of years from 2014/15. Instead 50% of awards are paid in shares, which (after any sales to pay tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt.

Awards are subject to clawback and malus provisions.

The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% respectively.

Long Term Performance Plan Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>Awards of shares may be granted each year, with vesting subject to long-term performance conditions.</p>	<p>The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors.</p>	<p>For awards between 2011 and 2013 the performance measures and weightings were:</p>
<p>The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan.</p>	<p>For awards made between 2011 and 2013, the maximum award for the CEO was 225% of salary and 200% for the other Executive Directors.</p>	<p>adjusted EPS (50%) measured over three years; TSR relative to the FTSE 100 (25%) measured over three years; and</p>
<p>Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance</p>		<p>UK or US RoE relative to allowed regulatory returns (25%) measured over four years. From 2014, the performance</p>

with the dividend policy.

measures are:

value growth and Group RoE (for the CEO and Finance Director); and
value growth, Group RoE and UK or US RoE (for the UK and US Executive Directors respectively).

[LTPP table continued opposite](#)

Table of Contents

**Long Term
Performance**

Purpose and link to strategy: to drive long-term performance, aligning Executive Director

Plan continued

incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>For awards granted from 2014, participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.</p>		<p>All are measured over a three year period.</p> <p>The weightings of these measures may vary year to year, but would always remain such that the value growth metric would never fall below a 25% weighting and never rise above a 75% weighting.</p>
		<p>Between 2011 and 2013, 25% of the award vested at threshold and 100% at stretch, with straight-line vesting in between.</p>

From 2014, only 20% vests at threshold.

Approved policy table Non-executive Directors (NEDs)

Fees for NEDs

Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
<p>NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee.</p>	<p>There are no maximum fee levels.</p>	<p>Not applicable.</p>
<p>Fee structure:</p> <ul style="list-style-type: none"> Chairman fee; basic fee, which differs for UK- and US-based NEDs; committee membership fee; committee chair fee; and Senior Independent Director fee. 	<p>The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.</p>	
<p>Fees are reviewed every year and are benchmarked against those in companies of similar scale and complexity.</p>		

NEDs do not participate in incentive or pension plans and, with the exception of the Chairman, are not eligible to receive benefits. The Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, with the use of a driver, when required.

There is no provision for termination payments.

Table of Contents

Corporate Governance

Directors Remuneration Report continued

Shareholding requirement

The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and their interests are aligned.

From 2014/15, Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay tax or in exceptional circumstances.

Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of

The Company includes in its annual employee opinion survey questions on the appropriateness of the pay arrangements within the Company. It does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are noted.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The

the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay.

All employees are entitled to base salary, benefits and pension. Many employees are eligible for an APP award based on Company and/or individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 350 senior management employees are eligible to participate in the LTPP.

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the SIP in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 62.

Consideration of remuneration policy elsewhere

in the Company

In setting the remuneration policy, the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are benchmarked regularly to ensure they remain competitive in the markets in which we operate. In undertaking such benchmarking, our aim is to be at mid-market level for all job bands, including those subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

When considering annual salary increases, the Committee reviews the proposals for salary increases

Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for a new CEO).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at

for the employee population generally, as it does for any other changes to remuneration policy being considered. This will include a report on the status of negotiations with any trade union represented employees. the time of appointment.

Table of Contents**Service contracts and policy on payment for loss of office**

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period no greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax purposes the policy is to make any payment in lieu of notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director being made redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable and any DSP awards would generally lapse. However, the Committee has the

Dates of Directors' service contracts/letters of appointment**Date of service contract/appointment****Executive Directors**

Andrew Bonfield 1 November 2010

Steve Holliday 1 April 2006

John Pettigrew 1 April 2014

Dean Seavers 1 December 2014
(appointed as

Executive Director 1 April 2015)

Non-executive Directors

discretion to deem an individual to be a good leaver, in which case an APP award would be payable on the termination date, based on performance during the financial year up to termination, and DSP awards would vest on the termination date. Examples of circumstances in which a Director would be treated as a good leaver include redundancy, retirement, illness, injury, disability and death. Any APP award would be prorated and would be subject to performance achieved against the objectives for that year.

Nora Mead Brownell	1 June 2012
Jonathan Dawson	4 March 2013
Therese Esperdy	18 March 2014
Sir Peter Gershon	1 August 2011
Paul Golby	1 February 2012
Ruth Kelly	1 October 2011
Mark Williamson	3 September 2012

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Share awards would normally lapse. Good leaver provisions apply at the Committee's discretion and in specified circumstances, including redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by good leavers may vest subject to performance measured at the normal vesting date and are prorated. Such awards would vest at the same time as for other participants.

The Chairman's appointment is subject to six months notice by either party; for the other Non-executive Directors, notice is one month. No compensation is payable to Non-executive Directors if required to stand down.

Copies of Directors' service contracts and letters of appointment are available to view at the Company's registered office.

Please note that the information shown above is different to that contained in the approved policy as it has been updated to take account of Board departures and joiners during the year.

External appointments

The Executive Directors may, with the approval of the Board, accept one external appointment as a non-executive director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be beneficial personal development, that in turn is of value to the Company.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

67

Table of Contents**Corporate Governance****Directors Remuneration Report** continued**Total remuneration opportunity**

The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2015 under three different performance levels – below threshold (when only fixed pay is receivable), on target and maximum – is shown below.

Note that the information shown below is different to that contained in the approved policy as it has been updated to take account of Board departures and joiners during the year, and also to reflect the impact of the policy on 2015 remuneration, rather than 2014.

Andrew Bonfield £ 000

Steve Holliday £ 000

John Pettigrew £ 000

Dean Seavers £ 000

1. Fixed pay for Andrew Bonfield, Steve Holliday and John Pettigrew consists of salary, pension and benefits in kind as provided under the remuneration policy. Fixed pay for Dean Seavers consists of salary, the part of his pension that is aligned with salary (see footnote 4 below) and benefits in kind as provided under the remuneration policy.
2. Salary is that to be paid in 2015/16, taking account of the increases that will be effective from 1 June 2015 shown on page 74.
3. Benefits in kind are as shown in the single total figure of remuneration table for 2014/15 on page 69, except for Dean Seavers for whom benefits in kind are assumed to be \$37,000.
4. Pension is as shown in the single total figure of remuneration table for 2014/15 on page 69, except for Andrew Bonfield for whom pension is shown as 30% of salary and Dean Seavers, for whom pension is shown as 13% of salary plus 13% of APP. This is made up of a 9% Core Plan contribution and a 4% Company match to his 401(k) plan. The element of Dean's pension that is aligned with salary is shown within Fixed pay and the element of his

pension that is aligned with APP is shown within APP .

5. APP calculations are based on 125% of salary for the period 1 April 2015 to 31 March 2016. For Dean Seavers, APP also includes the part of his pension that is aligned with APP (see footnote 4 above).
6. LTPP calculations are based on awards with a face value at grant of 350% of 1 June 2015 salary for Steve Holliday and 300% of 1 June 2015 salary for all other Executive Directors. They, therefore, exclude future share price movement.
7. LTPP and APP payout is 50% for on target performance and the maximum is 100% for achieving stretch performance.
8. Dean Seaver s remuneration opportunity has been converted at \$1.58:£1.

Statement of consideration of shareholder views

The Committee considers all feedback received from shareholders throughout the year. While the Committee understands that not all shareholders views will be the same, we consult with our larger shareholders on a regular basis to understand their expectations with regard to executive remuneration issues and any changes in shareholder views in this regard. In 2013/14, we consulted larger shareholders on the proposed changes to remuneration policy. Shareholders were supportive of the direction of change proposed, particularly increasing holding periods for awards and retention thresholds. Several responses suggested a number of small changes and where possible the Committee reflected these changes in the proposals that were approved at the 2014 AGM.

Table of Contents

Annual report on remuneration

Statement of implementation of remuneration policy in 2014/15

Role of Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for setting the remuneration policy for the Chairman. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders, customers and regulators interests.

Members of the Committee

All members of the Committee are independent. Committee membership during the year and attendance at meetings is set out below:

Member	Attendance
Jonathan Dawson	6 of 6
Nora Mead Brownell	6 of 6
Paul Golby	6 of 6
Mark Williamson	6 of 6

The Committee's activities during the year

Meeting Main areas of discussion

April Benchmarking data review for Executive Directors and Executive Committee members
 Framework for the 2014/15 APP and 2014 LTPP
 Executive Directors shareholdings
 2014 Directors Remuneration Report
 Terms of reference and code of conduct for advisors to the Committee

May Annual salary review and LTPP proposals for Executive Directors and Executive Committee
 2013/14 APP financial outturns and individual performance and confirmation of awards
 APP targets for 2014/15 financial year

September Remuneration package for new US Executive Director (Dean Seavers) and exit arrangements for incumbent (Tom King)

November Update on corporate governance and disclosure issues and review of AGM outcome
 Review of 2014 LTPP and 2014/15 APP metrics

February Benchmarking data review for Executive Directors and Executive Committee remuneration
 Framework for the 2015 LTPP
 2015 Directors Remuneration Report
 Committee evaluation

March Metrics and targets for APP framework for 2015/16
 Review of objectives for CEO and direct reports for APP 2015/16

Single total figure of remuneration Executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2014/15, together with comparative figures for 2013/14:

	Salary		Benefits in kind		APP		LTPP/PSP		Pension		Total	
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Andrew Bonfield	727	712	58	55	854	790	1,300	1,418	218	214	3,157	3,189
Steve Holliday	1,021	1,000	40	35	1,210	1,169	2,051	2,179	523	418	4,845	4,801
Tom King	748	715	35	23	484	595	1,051	1,732	589	1,111	2,907	4,176
John Pettigrew	475		18		527		408		451		1,879	
Nick Winser	182	546	5	12	205	704	693	1,177	85	212	1,170	2,651
Total	3,153	2,973	156	125	3,280	3,258	5,503	6,506	1,866	1,955	13,958	14,817

1. Base salaries were last increased on 1 June 2014. At this time Andrew Bonfield, Steve Holliday and Tom King all received salary increases of 2.5%, in line with the salary increase given to other employees of the Company. John Pettigrew joined the Board on 1 April 2014 and was not given a salary increase at 1 June 2014. Nick Winser was not given a salary increase at 1 June 2014, as he was stepping down from the Board at the 2014 AGM. Tom King's annual salary was converted at \$1.58:£1 in 2014/15 and \$1.62:£1 in 2013/14.

2. Benefits in kind include private medical insurance, life assurance, either a fully expensed car or a cash alternative to a car and the use of a driver when required. For Andrew Bonfield, Steve Holliday and John Pettigrew, it also includes the benefits of Sharesave options granted during the year. For Andrew Bonfield, a cash allowance in lieu of pension contributions is included within pension rather than benefits in kind.

3. The APP value for 2013/14 is the full award before the 50% mandatory deferral into the DSP.

4. A portion of the 2011 LTPP award vested in July 2014, with the remainder due to vest in July 2015. The above value is based on the share price (855 pence) on the vesting date (1 July 2014) for that portion that vested on 1 July 2014, and the average share price over the three months from 1 January 2015 to 31 March 2015 (899 pence) for that portion due to vest on 1 July 2015. In the prior year the 2010 PSP award vested and entered a retention period which ended in June 2014. The above valuation is based on the share price (744 pence) on the vesting date (1 July 2013).

5. The pension figure for Tom King is based on his accrued benefit at date of leaving. Tom is required to take his benefit from age 55 (2016) and, under the provisions of the plan, his pension will be reduced for early payment.

6. John Pettigrew was appointed to the Board on 1 April 2014, and hence his single total figure of remuneration for 2013/14 was £nil.

7. Nick Winser stood down from the Board on 28 July 2014. His salary, benefits in kind and APP for 2014/15 shown above are prorated to reflect qualifying service between 1 April and 28 July 2014 during which time Nick was a member of the Board. The 2011 LTPP for 2014/15 shown above is not prorated, as this relates to the three-year period ended 30 June 2014, prior to Nick standing down from the Board. The 2011 LTPP only includes the EPS and TSR portion that vested during the year. The RoE portion is not included as Nick was not a Director at the end of the year. The RoE portion will be disclosed in the 2015/16 Remuneration Report under payments to past Directors. The pension for 2014/15 shown above represents pension earned by Nick

over the full year to 31 March 2015, as required by BIS disclosure regulations.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

69

Table of Contents

Corporate Governance

Directors Remuneration Report continued

Performance against targets for APP 2014/15 (audited information)

are earned by reference to the financial year and paid in June. The APP awards earned in 2014/15 were:

Actual	Proportion of max achieved	Andrew Bonfield		Steve Holliday		Proportion of salary Tom King		John Pettigrew		Nic Ma
		Max	Actual	Max	Actual	Max	Actual	Max	Actual	
60.6	100%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%
11.8	100%	43.75%	43.75%	43.75%	43.75%					
14.3	83.33%							43.75%	36.46%	43.75%
8.4	0%					43.75%	0%			
below		37.5%	30%	37.5%	31%	37.5%	21%	37.5%	30.8%	37.5%

Edgar Filing: NATIONAL GRID PLC - Form 20-F

125%	117.5%	125%	118.5%	125%	64.75%	125%	111.04%	125%
	£854,029	£1,209,687		£484,464		£527,440		

... to the financial measures, threshold, target and stretch performance pays out at 0%, 50% and 100% respectively and on a straight-line basis between threshold and target performance and target and stretch performance.

... EPS is amended for the impact of timing and actuarial assumptions on pensions and OPEBs.

... RoE comprises the reported 13.7% plus a discretionary adjustment of 60bps to include the benefit of a one-off legal settlement.

... Winser's APP award for 2014/15 is prorated to reflect the period between 1 April and 28 July 2014 when he was a member of the Board.

Objectives

The annual performance objectives of the Executive Directors and Executive Committee for 2014/15 were set by reference to the Company's strategy for the year including building on our strong safety performance; the drive for business growth in the UK and US; delivery of operational excellence in overall Company performance and service to customers; promotion of new ideas to work more efficiently and effectively; strengthening the brand and keeping all our people fully engaged; working with external stakeholders to shape energy policy and embed sustainability into our operations; to conserve natural resources and focus on environmental issues. Measureable levels of threshold, target and stretch performance are agreed at 0%, 50% and 100% respectively. The following table indicates the primary area of focus of the individual performance objectives of the Executive Directors together with their overall performance against these objectives:

	Andrew Bonfield	Steve Holliday	Tom King	John Pettigrew
Business growth				
Business development				
Customer relations				
Employee engagement				
Operational strategy				
Operational excellence				
Operational experience				
Operational strategy				
Overall performance as a percentage of maximum	80%	82.7%	56%	82.2%

...ing for Nick Winser is for the period between 1 April and 28 July 2014 when he was a member of the Board.

APP performance (audited information)

... value included in the 2014/15 single total figure relates to vesting of the conditional LTPP award granted in 2011. Part of the award is payable over the three years ending 31 March 2014 for the EPS measure (50% weighting) and over the three years ending 30 June 2014 for the...

(% weighting) vested on 1 July 2014. The remaining 25% weighting of the 2011 LTTP relates to the RoE measure. This is made up of the UK Executive Directors, the US RoE measure for the US Executive Director and both the UK RoE measure and the US RoE measure for the CEO and Group Finance Director. The UK RoE measure is measured over the four years ending 31 March 2015 and the US RoE measure over the four years ending 31 December 2014. However, the award does not vest until four years after the grant date, i.e. until 1 July 2018. The actual performance achieved against the performance targets, including the expected vesting percentage for the RoE measures, was:

Performance measure	Threshold vesting	25%	Maximum vesting	100%	Actual/expected vesting	Actual/expected
						proportion of maximum achieved
TSR ranking (25% weighting)	Ranked at median of the comparator group (FTSE 100)		7.5 percentage points or more above median		7.33 percentage points above median	98.3%
Adjusted EPS (50% weighting)	EPS growth exceeds RPI increase by 3 percentage points		EPS growth exceeds RPI increase by 8 percentage points or more		Exceeded RPI increase by 3.4 percentage points	31.0%
UK RoE (12.5% weighting for the CEO and Group Finance Director; 25% weighting for the UK Executive Director)	RoE is equal to the average allowed regulatory return		RoE is 2 percentage points or more above the average allowed regulatory return		Exceeded average allowed regulatory return by 3.1 percentage points	100%
US RoE (12.5% weighting for the CEO and Group Finance Director; 25% weighting for the US Executive Director)	RoE is 1 percentage point below the average allowed regulatory return		RoE is 1 percentage point or more above the average allowed regulatory return		0.98 percentage points below the average allowed regulatory return	25.9%

Table of Contents

ts vesting under the 2011 LTPP during the year and included in the 2014/15 single total figure are as follows:

Original number of share awards in 2011 LTPP	Overall vesting percentage (including expected vesting) Percentage for RoE measure	Number of awards vesting (including expected vesting) Percentage for RoE measure	Dividend equivalent shares	Total value of awards (including expected vesting) for RoE measure) and dividend equivalent shares
229,463	55.81%	128,063	21,722	
362,148	55.81%	202,115	34,284	
45,537 (ADSs)	46.55%	21,196 (ADSs)	2,881 (ADSs)	
61,212	65.07%	39,832	6,951	
174,986	53.43%	70,121	10,949	

ove valuation is based on the share price (855 pence:\$68.47) on the vesting date (1 July 2014) for the EPS and TSR elements of the award. The share price over the three months from 1 January 2015 to 31 March 2015 (899 pence:\$70.33) for the RoE element of the award. The valuation is converted at \$1.58:£1.

ng s awards are over ADSs and each ADS represents five ordinary shares.
k Winner, the valuation excludes the RoE element of the award.

ion benefits (audited information)

Below provides details of the Executive Directors' pension benefits:

Total contributions to DC-type pension plan £ 000	Cash in lieu of contributions to DC-type pension plan £ 000	Accrued DB-type pension at 31 March 2015 £ 000 pa	Increase Reduction		Increase/ (decrease) in any lump sum £ 000	Value of pension benefit calculated using BIS methodology £ 000
			in accrued DB-type pension over year due £ 000 pa	in salary due to FPS £ 000		
	218					218
		546	29	61	1	523
8		581	29			589
		143	21	28	63	451
		297	6	27	(6)	85

US-based Executive Directors participate in FPS, a salary sacrifice arrangement. Under FPS, the individual's salary is reduced by an amount equivalent to the employee pension contribution that would have been paid into the scheme. An equivalent contribution is paid into the scheme by the employer. In addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £127,000 for Andrew Bonfield as at 31 March 2015. The increase to the accumulated lump sum, net of inflation, was £1,000 in the year to 31 March 2015.

In addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £316,000 for Nick Winser as at 31 March 2015. The accumulated lump sum reduced by £6,000 in the year to 31 March 2015, after allowing for inflation.

In addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £428,000 for John Pettigrew as at 31 March 2015. The increase to the accumulated lump sum net of inflation was £63,000 in the year to 31 March 2015.

For Tom King, the exchange rate as at 31 March 2015 was \$1.49:£1 and as at 31 March 2014 was \$1.67:£1. Through Tom King's participation in a DC pension plan in the US (a DC arrangement) the Company made contributions worth £8,076.

In addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £127,000 for Andrew Bonfield as at 31 March 2015. In addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £316,000 for Nick Winser, the increase in accrued DB-type pension over the year shown above is net of inflation, as US pensions in payment or deferment increase in line with inflation. For Tom King, the increase in accrued DB-type pension over the year shown above is net of inflation, as US pensions in payment or deferment do not increase in line with inflation.

In accordance with BIS methodology, the pension benefit for Andrew Bonfield is calculated as the aggregate of contributions made to a DC-type pension plan (£8,076) and cash in lieu of contributions to a DC-type pension plan (£218,000). In accordance with BIS disclosure regulations, the pension benefit for Andrew Bonfield, John Pettigrew, Tom King, John Pettigrew and Nick Winser is calculated as the increase in accrued DB-type pension over the year shown above plus the increase or less the decrease in the lump sum shown above, less the reduction in salary due to FPS plus total contributions made to DC-type pension plans. Each element is calculated separately and rounded to produce the numbers in the table above.

There are no additional benefits in the event of early retirement.

Total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2014/15, together with comparative figures for 2013/14:

	Fees		Other emoluments		Total
	£ 000 2014/15	2013/14	2014/15	£ 000 2013/14	£ 000 2014/15
Mr. G. G. G.	84	88			84
Mr. J. J. J.	91	88			91
Mr. K. K. K.	96	84			96
Mr. L. L. L.	91	3			91
Mr. M. M. M.	488	475	16	17	504
Mr. N. N. N.	81	76			81
Mr. O. O. O.	79	76			79
Mr. P. P. P.	33	101			33
Mr. Q. Q. Q.	118	99			118
Total	1,161	1,090	16	17	1,177

Mr. Gershon's other emoluments comprise private medical insurance, cash in lieu of a car and the use of a driver when required.

Additional award) granted during the financial year (audited information)

	Basis of award	Face value	Proportion vesting	Number of shares	P peri
		000	at threshold performance		
Mr. R. R. R.	300% of salary	£2,189	20%	248,470	

Edgar Filing: NATIONAL GRID PLC - Form 20-F

day	350% of salary	£3,588	20%	407,138
	300% of salary	\$3,561	20%	47,668 (ADSs)
rew	300% of salary	£1,425	20%	161,720
er	0% of salary	£nil	n/a	n/a

The value of the awards is calculated using the share price at the date of grant (29 July 2014) (£8.8115 per share and \$74.7032 per ADS).

Table of Contents

Corporate Governance

Directors Remuneration Report continued

Performance conditions for LTPP awards granted during the financial year (audited information)

Performance measure	Weighting				Conditional share awards granted 2014		
	Andrew Bonfield	Steve Holliday	Tom King	John Pettigrew	Threshold vesting	20%	Maximum 100% vesting
Group RoE	50%	50%	25%	25%	11.0%		12.5% or more
UK RoE				25%	1 percentage point above the average allowed regulatory return		3.5 percentage points or more above the average allowed regulatory return
US RoE			25%		90% of the average allowed regulatory return		105% or more of the average allowed regulatory return
Value growth	50%	50%	50%	50%	10.0%		12.0% or more

DSP (conditional award) granted during the financial year (audited information)

The 2014 award (granted 17 June 2014) is the final DSP award that will be made and relates to the 2013/14 award made under the previous remuneration policy.

DSP	Basis of award	Number of Shares	Face value	000	Release date
Andrew Bonfield	50% of APP value	47,048	£395		17 June 2017
Steve Holliday	50% of APP value	69,653	£585		17 June 2017
Tom King	50% of APP value	6,566 (ADSs)	\$482		17 June 2017
John Pettigrew	33% of APP value	14,350	£120		17 June 2017
Nick Winser	50% of APP value	41,924	£352		17 June 2017

1. The face value of the awards is calculated using the share price at the date of grant (17 June 2014) (£8.3922 per share and \$73.4150 per ADS).

2. The award made in 2014/15 is 50% of the 2013/14 APP value except for John Pettigrew.

3. The award made in 2014/15 for John Pettigrew is 33% of the 2013/14 APP value to reflect his terms before his appointment to the Board on 1 April 2014.

Conditions for DSP awards granted during the financial year

DSP awards are subject only to continuous employment.

Payments for loss of office (audited information)

Payments made to Directors for loss of office during 2014/15 were as follows:

Description	Amount
--------------------	---------------

<p>Tom King</p> <p>Payment in lieu of notice.</p> <p>Remuneration Committee exercised its discretion to award good leaver status for outstanding 2011, 2012, 2013 and 2014 LTPP awards and DSP awards.</p> <p>Date of leaving: 31 March 2015.</p>	<p>\$692,388 paid in April 2015.</p> <p>86,043 awards remain outstanding, having been prorated for time served during the performance period (LTPP awards: 2011: 11,385; 2012: 40,200; 2013: 22,542; 2014: 11,916). Awards remain subject to performance conditions, measured at normal performance measurement date.</p> <p>DSP awards vest on the termination date (DSP awards: 2012: 11,332 (ADSs); 2013: 7,119 (ADSs); 2014: 6,566 (ADSs)).</p>
<p>Nick Winsor</p> <p>Statutory redundancy payment.</p> <p>Remuneration Committee exercised its discretion to award good leaver status for outstanding 2011, 2012 and 2013 LTPP awards and DSP awards.</p> <p>Immediate payment of accrued pension benefits from date of leaving.</p> <p>In accordance with the scheme rules, and as for all scheme members, there is no enhancement to or reduction of the accrued benefits for redundancy leavers.</p> <p>Option to exchange pension for lump sum payable at date of leaving.</p>	<p>£11,925 payable in August 2015.</p> <p>295,047 awards remain outstanding, having been prorated for time served during performance period (LTPP awards: 2011: 43,746; 2012: 154,049; 2013: 97,252). Awards remain subject to performance conditions, measured at normal performance measurement date. DSP awards vest on the termination date (DSP awards: 2012: 39,682; 2013: 33,741; 2014: 41,924).</p> <p>£715,000 lump sum payable in August 2015.</p> <p>£24,000 residual pension payable monthly from 1 August 2015 increasing annually with inflation.</p> <p>The lump sum and residual pension figures are subject to final member option confirmation and may vary depending on the changes in inflation at date of leaving.</p>

Stepped down from the Board at 2014 AGM
on 28 July 2014.

Date of leaving: 31 July 2015.

Payments to past Directors (audited information)

There were no payments made to past Directors during 2014/15.

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2015, had headroom of 4.12% and 7.95% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. Deferred share plan awards are not taken into account for these purposes until the end of the deferral period. Shares are valued for these purposes at the 31 March 2015 price, which was 865 pence per share (\$64.61 per ADS) except for Nick Winser whose shares are valued at the 28 July 2014 share price of 879 pence per share.

The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons. For Philip Aiken, Maria Richter and Nick Winser, the shareholding is as at the date they stepped down from the Board. For all others it is as at 31 March 2015.

Table of Contents

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright including connected persons)	Number of shares a multiple of current salary	Number of options granted under Share Save Plan	Conditional share awards subject to performance conditions (LTIP 2011, 2012, 2013 and 2014)	Conditional share awards subject to continuous employment (DSP 2012, 2013 and 2014)
Executive Directors						
Andrew Bonfield	400%	172,166	204%	5,443	713,728	147,904
Steve Holliday	500%	1,086,725	917%	3,524	1,142,170	202,704
Tom King	400%	111,610	608%		144,894	25,017
John Pettigrew	400%	138,562	252%	5,994	292,779	40,370
Nick Winser	400%	506,519	815%		356,540	115,347

Non-executive Directors

Philip Aiken	4,900	n/a
Nora Mead Brownell	5,000	n/a
Jonathan Dawson	25,179	n/a
Therese Esperdy	0	n/a
Sir Peter Gershon	79,450	n/a
Paul Golby	2,500	n/a
Ruth Kelly	800	n/a
Maria Richter	14,357	n/a
Mark Williamson	4,726	n/a

1. The salary used to calculate the value of shareholding is the gross annual salary as at 31 March 2015, except for Nick Winser whose calculation is made on gross annual salary as at 28 July 2014.
2. Andrew Bonfield and John Pettigrew have not yet met the increased shareholding requirement. They are expected to reach the required shareholding in 2017 and 2018 respectively.
3. Tom King's holdings and awards are shown as ADSs and each ADS represents five ordinary shares.
4. On 31 March 2015 Andrew Bonfield held 5,443 options granted under the Sharesave plan. 3,421 options were granted at a value of 445 pence per share, and they can be exercised at 445 pence per share between April 2016 and September 2016. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020.
5. On 31 March 2015 Steve Holliday held 3,524 options granted under the Sharesave plan. 1,502 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2017 and September 2017. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020.
6. On 31 March 2015 John Pettigrew held 5,994 options granted under the Sharesave plan. 1,252 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. On 1 April 2015, he exercised a Sharesave option over 1,708 shares at the option price of 455.06 pence per share for expiration in

September 2015 at a gain of £6,997.

7. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 57,365; LTPP 2012: 213,095; LTPP 2013: 194,798; LTPP 2014: 248,470. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 55,150; DSP 2013: 45,706; DSP 2014: 47,048.

8. For Steve Holliday, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 90,537; LTPP 2012: 336,702; LTPP 2013: 307,793; LTPP 2014: 407,138. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 75,933; DSP 2013: 57,118; DSP 2014: 69,653.

9. For Tom King, the number of conditional awards over ADSs subject to performance conditions is as follows: LTPP 2011: 11,385; LTPP 2012: 44,616; LTPP 2013: 41,225; LTPP 2014: 47,668. The number of conditional awards over ADSs subject to continuous employment is as follows: DSP 2012: 11,332; DSP 2013: 7,119; DSP 2014: 6,566.

10. For John Pettigrew, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 15,303; LTPP 2012: 52,395; LTPP 2013: 63,361; LTPP 2014: 161,720. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 11,679; DSP 2013: 14,341; DSP 2014: 14,350.

11. For Nick Winser, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 43,746; LTPP 2012: 163,412; LTPP 2013: 149,382. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 39,682; DSP 2013: 33,741; DSP 2014: 41,924.

12. The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2015; 1 July 2015 and 1 July 2016; 1 July 2016 and 1 July 2017; and 1 July 2017 for the LTPP 2011, LTPP 2012, LTPP 2013 and LTPP 2014 respectively. The normal vesting dates for the conditional share awards subject to continuous employment are 14 June 2015, 13 June 2016 and 17 June 2017 for the DSP 2012, DSP 2013 and DSP 2014 respectively.

13. Non-executive Directors do not have a shareholding requirement.

14. In April and May 2015 a further 35 shares were purchased on behalf of Steve Holliday and a further 34 shares on behalf of Andrew Bonfield and John Pettigrew via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2015 and 20 May 2015.

External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2015:

	Company	Retained fees (£)
Andrew Bonfield	Kingfisher plc	82,400
Steve Holliday	Marks and Spencer Group plc	22,900
Nick Winser	Kier Group plc	18,200

1. Fees for Steve Holliday relate to the period from 1 April to 8 July 2014 when he stepped down from the Marks and Spencer Group plc Board.
2. Fees for Nick Winsor relate to the period from 1 April to 28 July 2014 when he stepped down from the National Grid Board at the 2014 AGM.

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items, remeasurements and stranded cost recoveries.

Table of Contents**Corporate Governance****Directors Remuneration Report** continued**Performance graph and table**

This chart shows National Grid plc's six year annual total shareholder return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the United Kingdom. Over the last four years, National Grid's TSR has outperformed that of the FTSE 100 and underpins the pay shown for the Chief Executive in the table below, using current and previously published single total remuneration figures. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return**CEO's pay in the last six financial years**

Steve Holliday was the CEO throughout this six year period.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total single figure £ '000	3,931	3,738	3,539	3,170	4,801	4,845
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	56.65%	77.94%	94.80%
PSP/LTPP (proportion of maximum vesting including expected vesting for RoE measure)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%

Percentage change in CEO's remuneration

Edgar Filing: NATIONAL GRID PLC - Form 20-F

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2013/14 and 2014/15 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK. The Committee views this group as the most appropriate comparator group, as the CEO is UK-based and this group excludes employees represented by trade unions, whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£ 000	£ 000	Increase	£ 000	£ 000	Increase	£ 000	£ 000	Increase
	2014/15	2013/14		2014/15	2013/14		2014/15	2013/14	
Steve Holliday	1,021	1,000	2.1%	40	35	14.3%	1,210	1,169	3.5%
UK non-union employees									
(increase per employee)			2.3%			10.6%			3.5%

1. The Taxable benefits figure for 2014/15 for Steve Holliday and for UK non-union employees includes the benefit of Sharesave options granted during the year which were not in the benefits total for 2013/14.

Statement of implementation of remuneration policy in 2015/16

The remuneration policy adopted at the 2014 AGM will continue to be implemented during 2015/16 as follows:

	From 1 June 2014		Increase
	From 1 June 2015		
Andrew Bonfield	£737,000	£729,800	0.99%
Steve Holliday	£1,035,000 £508,250	£1,025,000 £475,000	0.98% 7%

John
Pettigrew

Dean Seavers (from 1 April 2015)	\$1,000,000	\$1,000,000	0%
----------------------------------	-------------	-------------	----

There will be no change to the implementation of the remuneration policy for 2015/16. Salary increases will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

APP measures for 2015/16

	Weighting
Adjusted EPS	35%
Group or UK or US RoE	35%
Individual objectives	30%

The APP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2015/16 annual report on remuneration.

Performance measures for LTPP to be awarded in 2015

Andrew Bonfield	Steve Holliday	Dean Seavers	John Pettigrew	Threshold	20% vesting	Maximum	100% vesting
50%	50%	25%	25%	11.0%		12.5% or more	

Group RoE

UK RoE

25% 1 percentage point above the average allowed regulatory return

3.5 percentage points or more above the average allowed regulatory return

US RoE

25%

90% of the average allowed regulatory return

105% or more of the average allowed regulatory return

Value growth

50%

50%

50%

50%

10.0%

12.0% or more

Table of Contents

NEDs fees

	£ 000		
	From 1 June 2015	From 1 June 2014	Increase
Chairman	495	490	1.0%
Senior Independent Director	22	22	0%
Board fee (UK-based)	64	62	3.2%
Board fee (US-based)	76	74	2.7%
Committee membership fee	9	9	0%
Chair Audit Committee	17	17	0%
Chair Remuneration Committee	17	17	0%
Chair (other Board committees)	12.5	12.5	0%

1. Committee chair fees are in addition to committee membership fees.
2. Therese Esperdy has been appointed as a Non-executive Director to the National Grid USA Board from 1 May 2015 with an annual fee of £25,000 in addition to her current NED fees.

Advisors to the Remuneration Committee

The Committee received advice during 2014/15 from independent remuneration consultants New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (part of Aon plc). NBS were selected as advisors by the Committee from 1 August 2013 following a competitive tendering process.

Work undertaken by NBS included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior employees. NBS are a member of the Remuneration Consultants Group and have signed up to that group's Code of Conduct. The Committee is satisfied that any potential conflicts were appropriately managed. NBS does not provide any other advice or services to the Company. In the year to 31 March 2015 the Committee paid a total of £88,890 to NBS, with fees being charged on a time incurred basis.

The Committee also received specialist advice from the following organisations:

Alithos Limited: provision of TSR calculations for the LTPP (£18,750 paid in 2014/15);

Linklaters LLP: advice relating to share schemes and to Directors' service contracts as well as providing other legal advice to the Company (£82,330 paid in 2014/15); and

Towers Watson: advice relating to the benchmarking of the total reward packages for the Executive Directors and other senior employees (£74,450 paid in 2014/15).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the CEO; and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Global Head of Reward and the Global Head of Pensions. No other advisors have provided significant services to the Committee in the year.

Voting on 2013/14 Directors' remuneration policy at 2014 AGM

For

Against

Number of votes	2,223,573,203	85,131,552
Proportion of votes	96.31%	3.69%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 61.76% of the Initial Share Capital (ISC) voted. In addition, shareholders holding 74 million shares abstained.

Voting on 2013/14 Annual Directors Remuneration Report at 2014 AGM

	For	Against
Number of votes	2,314,662,027	23,340,071
Proportion of votes	99.00%	1.00%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 62.54% of the ISC voted. In addition, shareholders holding 45 million shares abstained.

Voting on amendments to rules of LTPP at 2014 AGM

	For	Against
Number of votes	2,256,939,935	85,466,726
Proportion of votes	96.35%	3.65%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 62.66% of the ISC voted. In addition, shareholders holding 40 million shares abstained.

The Directors Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson

Chairman of the Remuneration Committee

20 May 2015

Table of Contents**Financial Statements contents**77 Introduction to the financial statements**Directors statement and independent auditors report**78 Statement of Directors responsibilities79 Independent auditors report85 Report of Independent Registered Public Accounting Firm**Consolidated financial statements under IFRS****Primary statements**86 Consolidated income statement88 Consolidated statement of comprehensive income89 Consolidated statement of changes in equity90 Consolidated statement of financial position92 Consolidated cash flow statement**Notes to the consolidated financial statements analysis of items in the primary statements**94 Note 1 Basis of preparation and recent accounting developments

Note 2

96 Segmental analysis

Note 3

101 Operating costs103 Note 4 Exceptional items, remeasurements and stranded cost recoveries

Note 5

105 Finance income and costs

Note 6

106 Tax

Note 7

111 Earnings per share (EPS)

Note 8

112 Dividends

Note 9

113 Goodwill

Note 10

114 Other intangible assets115 Property, plant and equipment**Notes to the consolidated financial statements supplementary information**136 Note 27 Commitments and contingencies137 Note 28 Related party transactions137 Note 29 Actuarial information on pensions and other post-retirement benefits141 Note 30 Financial risk management149 Note 31 Borrowing facilities150 Note 32 Subsidiary undertakings, joint ventures and associates151 Note 33 Sensitivities on areas of estimation and uncertainty152 Note 34 Additional disclosures in respect of guaranteed securities**Company financial statements****under UK GAAP****Basis of preparation**159 Company accounting policies**Primary statement**160 Company balance sheet**Notes to the Company financial statements**161 Note 1 Fixed asset investments161 Note 2 Debtors161 Note 3 Creditors162 Note 4 Derivative financial instruments162 Note 5 Investments162 Note 6 Borrowings163 Note 7 Share capital163 Note 8 Reserves

Note 11		
Note 12	163	Note 9 <u>Reconciliation of movements in total shareholders funds</u>
116		<u>Other non-current assets</u>
Note 13		
117		<u>Financial and other investments</u>
118		Note 14 <u>Investments in joint ventures and associates</u>
Note 15	163	Note 10 <u>Parent Company guarantees</u>
118	163	Note 11 <u>Audit fees</u>
Note 16		
121		<u>Inventories and current intangible assets</u>
Note 17		
122		<u>Trade and other receivables</u>
Note 18		
123		<u>Cash and cash equivalents</u>
Note 19		
123		<u>Borrowings</u>
Note 20		
126		<u>Trade and other payables</u>
Note 21		
126		<u>Other non-current liabilities</u>
Note 22		<u>Pensions and other post-retirement benefits</u>
126		
Note 23		
130		<u>Provisions</u>
Note 24		
132		<u>Share capital</u>
Note 25		
133		<u>Other equity reserves</u>
Note 26		
134		<u>Net debt</u>

Table of Contents

Introduction to the financial statements

We have continued to develop our presentational format to provide shareholders and users of these financial statements with additional information and guidance, and to make them easier to understand.

Throughout these financial statements we have provided plain English explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted *Our strategy in action*, drawing out the key elements of our business model (set out in the Strategic Report on pages 12 to 13), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our dual listing on the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 79) continues to provide more detail as to how our auditors have planned and completed their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 86 to 93. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All

information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word **unaudited** at the start of each box header. Unaudited commentary boxes appear on pages 87 to 89, 91, 93, 99 to 100, 110, 112 and 125.

Table of Contents

Financial Statements

Statement of Directors responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, the Directors' Report, including the Remuneration Report and the Strategic 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, and the Company financial statements and the Remuneration Report 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.

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

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 and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Each of the Directors, whose names and functions are listed on page 43, confirms that:

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 European Union 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.

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 European Union 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 Report contained in the Annual Report and Accounts 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 Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

[Alison Kay](#)

Group General Counsel & Company Secretary

20 May 2015

Company number: 4031152

Table of Contents

[INTENTIONALLY LEFT BLANK]

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

79

Table of Contents

[INTENTIONALLY LEFT BLANK]

80

Table of Contents

[INTENTIONALLY LEFT BLANK]

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

81

Table of Contents

[INTENTIONALLY LEFT BLANK]

82

Table of Contents

[INTENTIONALLY LEFT BLANK]

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

83

Table of Contents

[INTENTIONALLY LEFT BLANK]

84

Table of Contents

Report of Independent Registered Public Accounting Firm

to the Board of Directors and Shareholders of National Grid plc

Audit opinion for Form 20-F

In our opinion, the accompanying consolidated statement of financial position and the related consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2015 and 31 March 2014, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Additional Information section appearing on page 173 of the 2015 Annual Report and Accounts.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

[PricewaterhouseCoopers LLP](#)

London

United Kingdom

20 May 2015

Table of Contents**Financial Statements****Consolidated income statement**

for the years ended 31 March

	Notes	2015 £m	2015 £m	2014 £m	2014 £m	2013 £m	2013 £m
Revenue	2(a)		15,201		14,809		14,359
Operating costs	3		(11,421)		(11,074)		(10,610)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	2(b)		3,863	3,664		3,639	
Exceptional items, remeasurements and stranded cost recoveries	4		(83)	71		110	
Total operating profit	2(b)		3,780		3,735		3,749
Finance income	5		36		36		30
Finance costs							
Before exceptional items and remeasurements	5		(1,069)	(1,144)		(1,154)	
Exceptional items and remeasurements	4,5		(165)	93		68	
Total finance costs	5		(1,234)		(1,051)		(1,086)
Share of post-tax results of joint ventures and associates	14		46		28		18

Profit before tax

Before exceptional items, remeasurements and stranded cost recoveries	2(b)	2,876	2,584	2,533
Exceptional items, remeasurements and stranded cost recoveries	4	(248)	164	178
Total profit before tax	2(b)	2,628	2,748	2,711
Tax				
Before exceptional items, remeasurements and stranded cost recoveries	6	(695)	(581)	(619)
Exceptional items, remeasurements and stranded cost recoveries	4,6	78	297	62
Total tax	6	(617)	(284)	(557)
Profit after tax				
Before exceptional items, remeasurements and stranded cost recoveries		2,181	2,003	1,914
Exceptional items, remeasurements and stranded cost recoveries	4	(170)	461	240
Profit for the year		2,011	2,464	2,154
Attributable to:				
Equity shareholders of the parent		2,019	2,476	2,153
Non-controlling interests		(8)	(12)	1
		2,011	2,464	2,154

Earnings per share¹

Basic	7(a)	53.6p	65.7p	57.2p
Diluted	7(b)	53.4p	65.4p	57.0p

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Table of Contents

Unaudited commentary on the consolidated income statement

The consolidated income statement shows all revenue earned and costs incurred in the year, with the difference being the overall profit for the year.

Revenue

Revenue for the year ended 31 March 2015 increased by £392m to £15,201m. This increase was driven by higher revenues in our UK Electricity Transmission business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK Gas Transmission. Revenues in our UK Gas Distribution business were slightly lower as a result of changes in allowed revenues for replacement expenditure (repex). Our US Regulated businesses revenues were also lower, as a result of the end of the LIPA Management Services Agreement (MSA) last year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Operating costs

Operating costs for the year ended 31 March 2015 of £11,421m were £347m higher than the prior year. This increase in costs included a £154m year on year impact of changes in exceptional items, remeasurements and stranded cost recoveries, which is discussed below. Excluding exceptional items, remeasurements and stranded cost recoveries, operating costs were £193m higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following last year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of this year.

Net finance costs

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £75m lower than 2013/14 at £1,033m, mainly as a result of lower average gross debt through the year, lower RPI in the UK and

refinancing debt at lower rates.

Tax

The tax charge on profit before exceptional items, remeasurements and stranded cost recoveries was £114m higher than 2013/14. This was mainly due to higher profits before tax and the non-recurrence of one-off items that benefited the prior year.

Exceptional items, remeasurements and stranded cost recoveries

Operating profit for the year ended 31 March 2015 included an £83m loss (2013/14: £16m gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £55m gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254m; restructuring costs of £136m, primarily in the UK as we reorganised certain parts of our business to deliver under the new RIIO price controls; and a £79m provision for the demolition of UK gas holders that are no longer required.

Finance costs for the year ended 31 March 2015 included exceptional debt redemption costs of £131m and a loss of £34m on financial remeasurements, relating to net losses on derivative financial instruments.

Exceptional tax for 2014/15 of £78m primarily represents tax credits on the exceptional items and remeasurements described above.

Adjusted earnings and EPS

The following chart shows the five year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 186 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS¹

1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2014/15 of 4.6p (9%).

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated for shares issued via scrip dividends.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate.

	2014/15	2013/14	% change
Weighted average (income statement)	1.58	1.62	(2)%
Year end (balance sheet)	1.49	1.67	(11)%

Edgar Filing: NATIONAL GRID PLC - Form 20-F

If 2013/14 results had been translated at 2014/15 exchange rates, revenue, adjusted operating profit and operating profit reported in sterling would have been £212m, £25m and £32m higher respectively.

Table of Contents**Financial Statements****Consolidated statement of comprehensive income**

for the years ended 31 March

	Notes	2015 £m	2014 £m	2013 £m
Profit for the year		2,011	2,464	2,154
Other comprehensive (loss)/income				
Items that will never be reclassified to profit or loss:				
Remeasurements of net retirement benefit obligations	22	(771)	485	(714)
Tax on items that will never be reclassified to profit or loss	6	299	(172)	179
Total items that will never be reclassified to profit or loss		(472)	313	(535)
Items that may be reclassified subsequently to profit or loss:				
Exchange adjustments		175	(158)	117
Net (losses)/gains in respect of cash flow hedges		(154)	63	(31)
Transferred to profit or loss in respect of cash flow hedges		13	27	73
Net gains on available-for-sale investments		41	6	20
Transferred to profit or loss on sale of available-for-sale investments		(8)	(14)	(10)
Tax on items that may be reclassified subsequently to profit or loss	6	11	(2)	(15)
Total items that may be reclassified subsequently to profit or loss		78	(78)	154
Other comprehensive (loss)/income for the year, net of tax		(394)	235	(381)
Total comprehensive income for the year		1,617	2,699	1,773
Attributable to:				
Equity shareholders of the parent		1,624	2,711	1,772
Non-controlling interests		(7)	(12)	1
		1,617	2,699	1,773

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurements of net retirement benefit obligations

We had a net loss after tax of £472m (2013/14: net gain of £313m) on our pension and other post-retirement benefit schemes which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments

Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt we have issued in foreign currencies. The net movement for the year resulted in a gain of £175m (2013/14: £158m loss).

Net (losses)/gains in respect of cash flow hedges

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net loss for the year was £154m (2013/14: £63m gain).

Table of Contents**Consolidated statement of changes in equity**

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves ¹ £m	Total shareholders equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2012	422	1,355	12,294	(4,835)	9,236	7	9,243
Profit for the year			2,153		2,153	1	2,154
Total other comprehensive (loss)/income for the year			(535)	154	(381)		(381)
Total comprehensive income for the year			1,618	154	1,772	1	1,773
Equity dividends			(810)		(810)		(810)
Script dividend related share issue ²	11	(11)					
Issue of treasury shares			19		19		19
Purchase of own shares			(6)		(6)		(6)
Other movements in non-controlling interests						(3)	(3)
Share-based payment			20		20		20
Tax on share-based payment			(2)		(2)		(2)
At 31 March 2013	433	1,344	13,133	(4,681)	10,229	5	10,234
Profit for the year			2,476		2,476	(12)	2,464
Total other comprehensive income/(loss) for the year			313	(78)	235		235

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Total comprehensive income/(loss) for the year			2,789	(78)	2,711	(12)	2,699
Equity dividends			(1,059)		(1,059)		(1,059)
Scrip dividend related share issue ²	6	(8)			(2)		(2)
Issue of treasury shares			14		14		14
Purchase of own shares			(5)		(5)		(5)
Other movements in non-controlling interests			(4)		(4)	15	11
Share-based payment			20		20		20
Tax on share-based payment			7		7		7
At 31 March 2014	439	1,336	14,895	(4,759)	11,911	8	11,919
Profit for the year			2,019		2,019	(8)	2,011
Total other comprehensive (loss)/income for the year			(472)	77	(395)	1	(394)
Total comprehensive income/(loss) for the year			1,547	77	1,624	(7)	1,617
Equity dividends			(1,271)		(1,271)		(1,271)
Scrip dividend related share issue ²	4	(5)			(1)		(1)
Purchase of treasury shares			(338)		(338)		(338)
Issue of treasury shares			23		23		23
Purchase of own shares			(7)		(7)		(7)
Other movements in non-controlling interests			(3)		(3)	11	8
Share-based payment			20		20		20
Tax on share-based payment			4		4		4
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974

1. For further details of other equity reserves, see note 25.

2. Included within share premium account are costs associated with scrip dividends.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends

The Directors are proposing a final dividend of 28.16p, bringing the total dividend for the year to 42.87p, a 2.0% increase on 2013/14. The Directors intend to continue the dividend policy of increasing the annual dividend by at least the rate of RPI inflation for the foreseeable future.

Table of Contents**Financial Statements****Consolidated statement of financial position**

as at 31 March

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	9	5,145	4,594
Other intangible assets	10	802	669
Property, plant and equipment	11	40,723	37,179
Other non-current assets	12	80	87
Pension assets	22	121	174
Financial and other investments	13	330	284
Investments in joint ventures and associates	14	318	351
Derivative financial assets	15	1,539	1,557
Total non-current assets		49,058	44,895
Current assets			
Inventories and current intangible assets	16	340	268
Trade and other receivables	17	2,836	2,855
Financial and other investments	13	2,559	3,599
Derivative financial assets	15	177	413
Cash and cash equivalents	18	119	354
Total current assets		6,031	7,489
Total assets		55,089	52,384
Current liabilities			
Borrowings	19	(3,028)	(3,511)
Derivative financial liabilities	15	(635)	(339)
Trade and other payables	20	(3,292)	(3,031)
Current tax liabilities		(184)	(168)
Provisions	23	(235)	(282)
Total current liabilities		(7,374)	(7,331)

Non-current liabilities			
Borrowings	19	(22,882)	(22,439)
Derivative financial liabilities	15	(1,764)	(824)
Other non-current liabilities	21	(1,919)	(1,841)
Deferred tax liabilities	6	(4,297)	(4,082)
Pensions and other post-retirement benefit obligations	22	(3,379)	(2,585)
Provisions	23	(1,500)	(1,363)
Total non-current liabilities		(35,741)	(33,134)
Total liabilities		(43,115)	(40,465)
Net assets		11,974	11,919
Equity			
Share capital	24	443	439
Share premium account		1,331	1,336
Retained earnings		14,870	14,895
Other equity reserves	25	(4,682)	(4,759)
Shareholders equity		11,962	11,911
Non-controlling interests		12	8
Total equity		11,974	11,919

The consolidated financial statements set out on pages 86 to 158 were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:

Sir Peter Gershon Chairman

Andrew Bonfield Finance Director

National Grid plc

Registered number: 4031152

Table of Contents

Unaudited commentary on consolidated statement of financial position

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

Goodwill and other intangible assets

Goodwill and intangibles increased by £684m to £5,947m as at 31 March 2015. This increase primarily relates to foreign exchange movements of £602m and software additions of £207m, partially offset by software amortisation of £121m.

Property, plant and equipment

Property, plant and equipment increased by £3,544m to £40,723m as at 31 March 2015. This was principally due to capital expenditure of £3,263m on the renewal and extension of our regulated networks and foreign exchange movements of £1,703m, offset by depreciation of £1,361m in the year. See page 22 for further details of our capital expenditure.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £6m to £728m. This is primarily due to a decrease in investments in joint ventures of £33m, which includes dividends received of £79m, partially offset by our share of post-tax results for the year of £46m, more than offset by an increase in available-for-sale investments of £46m.

Inventories and current intangible assets, and trade and other receivables

Inventories and current intangible assets, and trade and other receivables have increased by £53m to £3,176m as at 31 March 2015. This is due to an increase in inventories and current intangible assets of £72m, offset by a net decrease in trade and other receivables of £19m. The £19m decrease consists of an increase in foreign exchange of £21m due to the stronger US dollar against sterling and a decrease in the underlying balances of £229m, reflecting collection of large prior year balances, including LIPA MSA and Superstorm Sandy re-insurance receivables.

Trade and other payables

Trade and other payables have increased by £261m to £3,292m, primarily due to foreign exchange movements of £161m and an increase in VAT liability following a change in regulations on wholesale gas and electricity trading.

Current tax balances

Current tax balances have decreased by £33m to £124m as at 31 March 2015. This is primarily due to the tax payments made in 2014/15 being only partially offset by a smaller current year tax charge.

Deferred tax balances

Deferred tax balances have increased by £215m to £4,297m as at 31 March 2015. This was primarily due to the impact of the £299m deferred tax credit on actuarial losses (a £172m tax charge in 2013/14) being offset by the impact of the reduction in the UK statutory tax rate, foreign exchange movements of £203m and the reduction in prior year charges.

Provisions and other non-current liabilities

Provisions (both current and non-current) and other non-current liabilities increased by £168m to £3,654m as at 31 March 2015.

Total provisions increased by £90m in the year. The underlying movements include additions of £105m relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £57m, together with foreign exchange movements of £133m, offset by utilisation of £209m in relation to all classes of provisions.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 92.

Net pension and other post-retirement obligations

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

	UK	US	Total
	£m	£m	£m
Net plan liability			
As at 1 April 2014	(753)	(1,658)	(2,411)
Exchange movements		(236)	(236)
Current service cost	(70)	(116)	(186)
Net interest cost	(27)	(74)	(101)
Curtailments and other	(34)	(27)	(61)
Actuarial gains/(losses)			
on plan assets	1,929	225	2,154
on plan liabilities	(1,975)	(950)	(2,925)
Employer contributions	258	250	508
As at 31 March 2015	(672)	(2,586)	(3,258)

Represented by:

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Plan assets	19,453	6,955	26,408
Plan liabilities	(20,125)	(9,541)	(29,666)
	(672)	(2,586)	(3,258)

The principal movements in net obligations during the year include net actuarial losses of £771m and employer contributions of £508m. Net actuarial losses include actuarial losses on plan liabilities of £2,746m arising as a consequence of increases in the UK real discount rate and the nominal discount rate in the US. This is partially offset by actuarial gains of £2,154m arising on plan assets.

Further information on our pension and other post-retirement obligations can be found in notes 22 and 29 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

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.

Table of Contents**Financial Statements****Consolidated cash flow statement**

for the years ended 31 March

	Notes	2015 £m	2014 £m	2013 £m
Cash flows from operating activities				
Total operating profit	2(b)	3,780	3,735	3,749
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	4	83	(71)	(110)
Depreciation, amortisation and impairment		1,494	1,417	1,361
Share-based payment charge		20	20	20
Changes in working capital		301	(59)	(410)
Changes in provisions		(41)	(150)	(53)
Changes in pensions and other post-retirement benefit obligations		(270)	(323)	(408)
Cash flows relating to exceptional items		(17)	(150)	(112)
Cash generated from operations		5,350	4,419	4,037
Tax paid		(343)	(400)	(287)
Net cash inflow from operating activities		5,007	4,019	3,750
Cash flows from investing activities				
Acquisition of investments			(4)	(14)
Proceeds from sale of investments in subsidiaries				183
Purchases of intangible assets		(207)	(179)	(175)
Purchases of property, plant and equipment		(3,076)	(2,944)	(3,214)
Disposals of property, plant and equipment		9	4	32
Dividends received from joint ventures		79	38	21
Interest received		37	35	29
Net movements in short-term financial investments		1,157	1,720	(2,992)
Net cash flow used in investing activities		(2,001)	(1,330)	(6,130)
Cash flows from financing activities				
Purchase of treasury shares		(338)		
Proceeds from issue of treasury shares		23	14	19

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Purchase of own shares		(7)	(5)	(6)
Proceeds received from loans		1,534	1,134	5,062
Repayment of loans		(2,839)	(2,192)	(1,210)
Net movements in short-term borrowings and derivatives		623	37	452
Interest paid		(826)	(901)	(792)
Exceptional finance costs on the redemption of debt		(152)		
Dividends paid to shareholders		(1,271)	(1,059)	(810)
Net cash flow (used in)/from financing activities		(3,253)	(2,972)	2,715
Net (decrease)/increase in cash and cash equivalents	26(a)	(247)	(283)	335
Exchange movements		24	(26)	14
Net cash and cash equivalents at start of year		339	648	299
Net cash and cash equivalents at end of year¹	18	116	339	648

1. Net of bank overdrafts of £3m (2014: £15m; 2013: £23m).

Table of Contents**Unaudited commentary on the consolidated cash flow statement**

The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses (Investing activities); and the cash raised from debt or share issues and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flow to net debt

	2015	2014
	£m	£m
Cash generated from operations	5,350	4,419
Net capital expenditure	(3,274)	(3,119)
Business net cash flow	2,076	1,300
Net interest paid (including exceptional interest)	(941)	(866)
Tax paid	(343)	(400)
Net acquisitions and disposals		(4)
Dividends paid	(1,271)	(1,059)
Other cash movements	(243)	47
Non-cash movements	(2,003)	1,221
(Increase)/decrease in net debt	(2,725)	239

Opening net debt	(21,190)	(21,429)
Closing net debt	(23,915)	(21,190)

Cash generated from operations

Cash generated from operations £m

Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission and distribution operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable inter-year cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect cash flows, particularly in the winter months.

For the year ended 31 March 2015, cash flow from operations increased by £931m to £5,350m.

Changes in working capital improved by £360m over the prior year, principally in the US (£441m) due to the collection of high winter 2014 billings and other settlements including Hurricane Sandy re-insurance claims and LIPA receipts. Cash outflows relating to exceptional items were £133m lower, as the prior year included reorganisation costs in the UK and LIPA MSA transition costs in the US.

Net capital expenditure

Net capital expenditure in the year of £3,274m was £155m higher than the prior year. This was a result of higher spend in our US regulated businesses, reflecting a record year of investment, partially offset by lower spend in our UK regulated businesses.

Net interest paid

Net interest paid and exceptional finance costs in 2014/15 were £941m, £75m higher than 2013/14 due to £152m debt redemption cash outflows.

Tax paid

Tax paid in the year to 31 March 2015 was £343m, £57m lower than prior year. This reflected repayments received in the US during the period.

Dividends paid

Dividends paid in the year ended 31 March 2015 amounted to £1,271m. This was £212m higher than 2013/14, reflecting the increase in the final dividend for the year ended 31 March 2014 paid in August 2014, together with a lower average scrip dividend take-up in the year.

Other cash movements

Other cash flows principally arise from dividends from joint ventures and movements in treasury shares, including the cost of repurchasing shares as part of the share buyback programme (£338m).

Non-cash movements

The non-cash movements are predominantly due to the strengthening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in currencies other than sterling. In the year, the dollar strengthened from \$1.67 at 31 March 2014 to \$1.49 at 31 March 2015.

Other non-cash movements are from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March £m

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

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

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2015 or later years, explaining how significant changes are expected to affect our reported results.

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

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 20 May 2015.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2015 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The 2014 and 2013 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

The consolidated financial statements have been prepared on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Further details of the Directors' assessment are set out on page 54.

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

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

A. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

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.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

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

The results of subsidiaries, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

Table of Contents

1. Basis of preparation and recent accounting developments continued

B. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income note 15.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

C. Areas of judgement and key sources of estimation uncertainty

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

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

the categorisation of certain items as exceptional items and the definition of adjusted earnings notes 4 and 7; and energy purchase contracts as being for normal purchase, sale or usage note 27.

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

Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items, remeasurements and stranded cost recoveries. Exceptional items, remeasurements and stranded cost recoveries are presented separately on the face of the income statement.

Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

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

review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment notes 10 and 11;
estimation of liabilities for pensions and other post-retirement benefits notes 22 and 29;
valuation of financial instruments and derivatives notes 15 and 30;
revenue recognition and assessment of unbilled revenue note 2; and
environmental and decommissioning provisions note 23.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 33.

New IFRS accounting standards and interpretations adopted in 2014/15

The following standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), are effective for the year ended 31 March 2015. None of the pronouncements has had a material impact on the Company's consolidated results or assets and liabilities for the year ended 31 March 2015.

IFRIC 21 Levies ;
amendments to IAS 32 Financial Instruments: Presentation in respect of offsetting financial assets and financial liabilities;
amendments to IFRS 10 Consolidated Financial Statements , IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements in respect of investment entities;
amendments to IAS 36 Impairment of Assets in respect of recoverable amount disclosures for non-financial assets; and
amendments to IAS 39 Financial Instruments: Recognition and Measurement , in respect of novation of derivatives and continuation of hedge accounting.

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements continued

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted

The Company enters into a significant number of transactions that fall within the scope of IFRS 9 Financial Instruments, effective for periods beginning after 1 January 2018. We are assessing the likely impact of this standard on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. Subject to EU endorsement, it is effective for accounting periods beginning on or after 1 January 2017. The new standard provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive.

The Group has completed an initial impact assessment of the new standard by completing a survey of all businesses identifying the likely impact of IFRS 15. This was a tailored questionnaire based on the known impacts of the new standard on power and utility companies. Whilst no material differences were identified as part of the questionnaire process, further follow-up work will be required to determine the impact, if any, on certain revenue items including, but not limited to, variable consideration contracts, take or pay arrangements and performance obligations where multiple goods or services are provided in individual contracts.

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.

2. Segmental analysis

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

Our strategy in action

We own a portfolio of businesses that range from businesses with high levels of investment and growth (such as UK Electricity Transmission) to cash generative developed assets with minimal investment requirements (such as National Grid Metering, included within Other activities).

We generate 95% of our revenue from our regulated operating segments in the UK and US. We work with our regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. When investing in Other activities we aim to leverage our core capabilities to deliver higher returns for investors.

Our regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under our regulatory agreements and any such timing differences are adjusted through future prices. Our Other activities earn revenue in line with their contractual terms.

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

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end. This is estimated based on historical consumption and weather patterns.

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

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is National Grid's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries (see note 4).

There have been no changes to our reporting structure for the year ended 31 March 2015.

Table of Contents**2. Segmental analysis continued**

The following table describes the main activities for each operating segment:

UK Electricity Transmission	High voltage electricity transmission networks in Great Britain.
UK Gas Transmission	The gas transmission network in Great Britain and UK LNG storage activities.
UK Gas Distribution	Four of the eight regional networks of Great Britain's gas distribution system.
US Regulated	Gas distribution networks, electricity distribution networks and high voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: the Great Britain-France electricity interconnector; UK based gas metering activities; UK property management; a UK LNG import terminal; US LNG operations; US unregulated transmission pipelines; together with corporate activities.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

(a) Revenue

2015			2014			2013		
Total	Sales	Sales	Total	Sales	Sales	Total	Sales	Sales
between	between	to	between	between	to	between	between	to
sale segments	sale segments	third	sales segments	sales segments	third	sales segments	sales segments	third
£m	£m	parties	£m	£m	parties	£m	£m	parties
					£m			£m

	£m								
Operating segments:									
UK Electricity									
Transmission	3,754	(12)	3,742	3,387	(14)	3,373	3,110	(15)	3,095
UK Gas									
Transmission	1,022	(107)	915	941	(104)	837	1,118	(89)	1,029
UK Gas									
Distribution	1,867	(43)	1,824	1,898	(49)	1,849	1,714	(47)	1,667
US Regulated	7,986		7,986	8,040		8,040	7,918		7,918
Other activities	762	(28)	734	736	(26)	710	678	(28)	650
	15,391	(190)	15,201	15,002	(193)	14,809	14,538	(179)	14,359
Geographical areas:									
UK			7,191			6,759			6,421
US			8,010			8,050			7,938
			15,201			14,809			14,359

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

2. Segmental analysis continued**(b) Operating profit**

A reconciliation of the operating segments measure of profit to total profit before tax is provided below. Further details of the exceptional items, remeasurements and stranded cost recoveries are provided in note 4.

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2015	2014	2013	2015	2014	2013
	£m	£m	£m	£m	£m	£m
Operating segments:						
UK Electricity Transmission	1,237	1,087	1,049	1,237	1,027	1,020
UK Gas Transmission	437	417	531	437	406	517
UK Gas Distribution	826	904	794	826	780	763
US Regulated	1,164	1,125	1,254	1,081	1,388	1,438
Other activities	199	131	11	199	134	11
	3,863	3,664	3,639	3,780	3,735	3,749
Geographical areas:						
UK	2,820	2,723	2,530	2,820	2,531	2,456
US	1,043	941	1,109	960	1,204	1,293
	3,863	3,664	3,639	3,780	3,735	3,749
Reconciliation to profit before tax:						
Operating profit	3,863	3,664	3,639	3,780	3,735	3,749
Finance income	36	36	30	36	36	30

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Finance costs	(1,069)	(1,144)	(1,154)	(1,234)	(1,051)	(1,086)
Share of post-tax results of joint ventures and associates	46	28	18	46	28	18
Profit before tax	2,876	2,584	2,533	2,628	2,748	2,711

(c) Capital expenditure, depreciation and amortisation

	Capital expenditure			Depreciation and amortisation		
	2015	2014	2013	2015	2014	2013
	£m	£m	£m	£m	£m	£m
Operating segments:						
UK Electricity Transmission	1,074	1,381	1,430	(376)	(343)	(323)
UK Gas Transmission	184	181	249	(172)	(172)	(162)
UK Gas Distribution	498	480	666	(286)	(271)	(261)
US Regulated	1,501	1,219	1,124	(452)	(419)	(430)
Other activities	213	180	217	(196)	(211)	(185)
	3,470	3,441	3,686	(1,482)	(1,416)	(1,361)
Geographical areas:						
UK	1,864	2,155	2,471	(983)	(938)	(902)
US	1,606	1,286	1,215	(499)	(478)	(459)
	3,470	3,441	3,686	(1,482)	(1,416)	(1,361)
By asset type:						
Property, plant and equipment	3,263	3,262	3,511	(1,361)	(1,289)	(1,260)
Non-current intangible assets	207	179	175	(121)	(127)	(101)
	3,470	3,441	3,686	(1,482)	(1,416)	(1,361)

Total non-current assets other than financial instruments, deferred tax assets and pension assets located in the UK and US were £25,278m and £21,790m respectively as at 31 March 2015 (31 March 2014: UK £24,531m, US £18,349m; 31 March 2013: UK £23,344m, US £19,340m).

Table of Contents

Unaudited commentary on the results of our principal operations by segment

As a business, we have three measures of operating profit that are used on a regular basis and disclosed in this Annual Report.

Statutory operating profit: This is operating profit as calculated under International Financial Reporting Standards (IFRS). Statutory operating profit by segment is shown in note 2 on page 98.

Adjusted operating profit: Adjusted operating profit (business performance) excludes items that if included could distort understanding of our performance for the year and the comparability between periods. Further details of items that are excluded in adjusted operating profit are shown in note 4 on page 103.

Regulatory financial performance: This is particularly relevant for our UK operations and is a measure of operating profit that reflects the impact of the businesses' regulatory arrangements when presenting financial performance.

Reconciliations between statutory and adjusted operating profit can be found on page 186. Reconciliations between adjusted operating profit and regulatory financial performance for UK Electricity Transmission, UK Gas Transmission and UK Gas Distribution can be found on page 100.

Commentary on segmental adjusted operating profit results

We have summarised the results of our principal operating segments here by segment to provide direct reference to the results as disclosed in note 2. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items, remeasurements and stranded cost recoveries) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2015, revenue in the UK Electricity Transmission segment was £367m higher at £3,754m, and adjusted operating profit increased by £150m to £1,237m.

Net regulated income after pass-through costs was £230m higher, principally reflecting increases in allowed Transmission Owner revenues this year and a £43m benefit relating to legal settlements. This was partially offset by under-recoveries of allowed revenue in the year of £89m compared with under-recoveries of £60m in the prior year. Regulated controllable costs were £14m higher due to inflation, organisational change costs and additional tower maintenance costs. Depreciation and amortisation was £33m higher reflecting the continued capital investment programme (investment in the year was £1,074m). Other costs were £4m higher than prior year.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £81m in 2014/15 to £1,022m and adjusted operating profit increased by £20m to £437m.

Net regulated income after pass-through costs was £42m higher due to earned gas permit and constraints management incentives. In addition, under-recoveries of allowed revenue in the year of £18m

were £3m favourable to last year's under-recoveries of £21m. Partially offsetting the revenue gains, regulated controllable costs were £8m higher, mainly as a result of additional system operator costs relating to EU work and some organisation change costs.

Other operating costs were also £17m higher, including a £13m provision for decommissioning the Avonmouth LNG plant.

Capital investment remained around the same level as last year at £184m.

UK Gas Distribution

UK Gas Distribution revenue decreased by £31m in 2014/15 to £1,867m, and adjusted operating profit decreased by £78m to £826m.

Net regulated income after pass-through costs was £11m lower, reflecting changes in allowed revenues for replacement expenditure (repex). Timing differences reduced net revenues by a further £16m, with £13m over-recoveries in 2014/15, compared with a £29m over-recovery in the prior year. Regulated controllable costs were £22m higher primarily due to inflation and some organisation change costs. Depreciation and amortisation was £15m higher reflecting the continued capital investment programme (investment in the year was £498m). Other costs were £14m higher, reflecting a provision for additional asset protection costs.

US Regulated

Revenue in our US Regulated businesses was £54m lower in 2014/15 at £7,986m, while adjusted operating profit increased by £39m to £1,164m.

The stronger dollar increased operating profit in the year by £30m. Excluding the impact of foreign exchange, net regulated income increased by £81m, reflecting increased revenue from existing rate plans, including capex trackers, together with additional income from gas customer growth, partially offset by the impact of the end of LIPA management services activities (MSA) in December 2013. In addition, over-recoveries of allowed revenues in the year of £30m were £20m favourable to last year's over-recoveries of £10m. Regulated controllable costs increased by £17m excluding the impact of foreign exchange, as a result of increased gas leak and compliance work and additional costs incurred to improve data quality and bring regulatory filings up to date, partly offset by the cessation of costs associated with the LIPA MSA activities. Bad debt costs were £62m higher excluding the impact of foreign exchange, following last year's exceptionally cold winter. There were no major storms affecting our operations in the years ended 31 March 2014 and 2015.

Our capital investment programme continues in the US, with a further £1,501m invested in 2014/15, including gas leak reduction programmes and electricity capacity and reinforcement work.

Other activities

Revenue in Other activities increased by £26m to £762m in the year ended 31 March 2015. Adjusted operating profit was £68m higher at £199m.

Operating profit in the French interconnector was £18m higher as a result of strong auction revenues this year. In the US, corporate and other activities losses were £63m lower, mainly as a result of our finance system upgrade completing in the first half of this year. Capital investment in our Other activities was £33m higher at £213m.

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements continued

Unaudited commentary on the results of our principal operations by segment continued

Commentary on UK regulated financial performance

The regulated financial performance calculation provides a measure of the performance of the regulated operations before the impacts of interest and taxation. It adjusts reported operating profit under IFRS to reflect the impact of the businesses' regulatory arrangements when presenting financial performance.

Adjustments in calculating regulatory financial performance

The principal adjustments from reported operating profit to UK regulated financial performance are:

Movement in UK regulatory IOUs : Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but be required to be returned to customers in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate.

Performance RAV: UK performance efficiencies are in part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements.

Pension adjustment: Cash payments against pension deficits in the UK are recoverable under regulatory contracts.

3% RAV indexation: Future UK revenues expected to be set using an asset base adjusted for inflation. This will be billed in future periods and recognised under IFRS at that time.

UK deferred taxation adjustment: Future UK revenues are expected to recover cash taxation cost including the unwinding of deferred taxation balances created in the current year.

Regulatory depreciation: US and UK regulated revenues include allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment: The regulatory remuneration of costs incurred is split between in year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles.

UK Electricity Transmission

Regulated financial performance for UK Electricity Transmission increased to £1,232m from £1,066m, up 16%. The year on year movement reflected the higher opening regulated asset value and the higher achieved operational return on equity. There was also a one-off benefit of £56m from legal settlements. These were partially offset by a reduced price control tracker cost of debt allowance.

Reconciliation of regulated financial

	2015	2014	%
performance to operating profit	£m	£m	change
Reported operating profit	1,237	1,087	14
Movement in regulatory IOUs	(130)	(19)	
Deferred taxation adjustment	88	53	
RAV indexation (average 3% long-run inflation)	326	301	
Regulatory vs IFRS depreciation difference	(352)	(337)	
Fast/slow money adjustment	34	(2)	
Pensions	(48)	(47)	
Performance RAV created	77	30	
Regulated financial performance	1,232	1,066	16

UK Gas Transmission

Regulated financial performance for UK Gas Transmission increased to £648m from £552m, up 17%. This reflected improved operational return on equity, mainly as a result of incentive performance, and the increase in underlying revenues associated with increased regulated asset value. This was partly offset by lower allowed cost of debt (2.72% real compared with 2.92% real in 2013/14).

Reconciliation of regulated financial

	2015	2014	%
performance to operating profit	£m	£m	change
Reported operating profit	437	417	5
Movement in regulatory IOUs	(16)	(28)	
Deferred taxation adjustment	85	12	
RAV indexation (average 3% long-run inflation)	166	162	
Regulatory vs IFRS depreciation difference	(22)	(2)	
Fast/slow money adjustment	54	44	
Pensions	(49)	(46)	
Performance RAV created	(7)	(7)	
Regulated financial performance	648	552	17

UK Gas Distribution

Regulated financial performance for UK Gas Distribution decreased to £819m from £855m. The year on year movement in regulated financial performance reflected an increase in underlying revenues associated with increased regulated asset value, more than offset by lower allowed cost of debt and a slightly reduced achieved return on equity.

Reconciliation of regulated financial	2015	2014	%
performance to operating profit	£m	£m	change
Reported operating profit	826	904	(9)
Movement in regulatory IOUs	(28)	(59)	
Deferred taxation adjustment	60	85	
RAV indexation (average 3% long-run inflation)	255	252	
Regulatory vs IFRS depreciation difference	(148)	(149)	
Fast/slow money adjustment	(182)	(197)	
Pensions	(5)	(9)	
Performance RAV created	41	28	
Regulated financial performance	819	855	(4)

Table of Contents**3. Operating costs**

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

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items, remeasurements and stranded			Exceptional items, remeasurements and stranded			Total		
	cost recoveries			cost recoveries					
	2015	2014	2013	2015	2014 ¹	2013 ¹	2015	2014 ¹	2013 ¹
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Depreciation and amortisation	1,482	1,416	1,361				1,482	1,416	1,361
Payroll costs	1,459	1,373	1,434		(155)	26	1,459	1,218	1,460
Purchases of electricity	1,615	1,513	1,251	70	(49)	(111)	1,685	1,464	1,140
Purchases of gas	1,403	1,722	1,384	13	33	(69)	1,416	1,755	1,315
Rates and property taxes	1,004	963	969				1,004	963	969
Balancing Services Incentive	874	872	805				874	872	805

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Scheme Payments to other UK network owners	801	630	487				801	630	487
Other	2,700	2,656	3,029		100	44	2,700	2,756	3,073
	11,338	11,145	10,720	83	(71)	(110)	11,421	11,074	10,610
Operating costs include:									
Inventory consumed							365	422	389
Operating leases							98	115	109
Research and development expenditure							23	12	15

1. Comparatives have been represented on a basis consistent with the current year presentation.

(a) Payroll costs

	2015	2014 ¹	2013 ¹
	£m	£m	£m
Wages and salaries ²	1,598	1,377	1,597
Social security costs	129	126	120
Other pension costs (note 22)	224	229	234
Share-based payment	20	20	20
Severance costs (excluding pension costs)	4	30	16
	1,975	1,782	1,987
Less: payroll costs capitalised	(516)	(564)	(527)
	1,459	1,218	1,460

1. Comparatives have been represented on a basis consistent with the current year presentation.

2. Included within wages and salaries are US other post-retirement benefit costs of £39m (2014: £44m; 2013: £43m); a curtailment gain on LIPA MSA transaction of £nil (2014: £198m; 2013: £nil) and a curtailment loss following disposal of businesses of £nil (2014: £nil; 2013: £1m). For further information refer to note 22.

(b) Number of employees

31 March 2015	Monthly average 2015	31 March 2014	Monthly average 2014	31 March 2013	Monthly average 2013
---------------	----------------------	---------------	----------------------	---------------	----------------------

UK	9,701	9,670	9,693	9,641	9,990	9,816
US	14,573	14,434	14,216	15,094	15,438	15,555
	24,274	24,104	23,909	24,735	25,428	25,371

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2015, there were 2,131 (2014: 2,044; 2013: 2,151) employees in other operations, excluding shared services.

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

3. Operating costs continued**(c) Key management compensation**

	2015	2014	2013
	£m	£m	£m
Short-term employee benefits	10	9	8
Post-employment benefits	9	1	3
Share-based payment	4	5	5
	23	15	16

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments

Details of Directors' emoluments are contained in the audited part of the Remuneration Report on page 69, which forms part of these financial statements.

(e) Auditors' remuneration

Auditors' remuneration is presented below in accordance with the requirements of the UK Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2015	2014 ¹	2013
	£m	£m	£m
Audit fees² payable to the parent Company's auditors and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements	1.3	0.9	1.1
The auditing of accounts of any associate of the Company	8.1	9.2	6.0
Other services supplied ³	3.3	3.2	2.7
	12.7	13.3	9.8

Total other services⁴			
Tax fees ⁵ :			
Tax compliance services	0.4	0.5	0.5
Tax advisory services	0.1	0.3	0.3
All other fees ⁶ :			
Other assurance services	0.1	0.1	0.1
Services relating to corporate finance transactions not covered above			0.3
Other non-audit services not covered above	0.3	0.8	1.1
	0.9	1.7	2.3
Total auditors remuneration	13.6	15.0	12.1

1. The audit fees for the year ended 31 March 2014 have been restated to reflect the final audit fee following completion of the statutory audit process.
2. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2015, 2014 and 2013, and the review of interim financial statements for the six month periods ended 30 September 2014, 2013 and 2012 respectively.
3. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.
4. There were no audit related fees as described in Item 16C(b) of Form 20-F.
5. Tax fees include amounts charged for tax compliance, tax advice and tax planning.
6. All other fees include amounts relating to market research on the metering industry and sundry services, all of which have been subject to approval by the Audit Committee. Total other fees for the year ended 31 March 2015 were £0.4m (2014: £0.9m; 2013: £1.5m).

In addition, fees of £0.2m were incurred in 2015 in relation to the audits of the pension schemes of the Company (2014: £0.1m; 2013: £0.1m).

Subject to the Company's Articles of Association and the Companies Act 2006, the Audit Committee is solely and directly responsible for the approval of the appointment, reappointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work in excess of £50,000 to be performed by the independent auditors to ensure that the service will not compromise auditor independence. The Committee has delegated the approval in advance for all non-audit work below this level to the Finance Director. Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act 2002.

102

Table of Contents

4. Exceptional items, remeasurements and stranded cost recoveries

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

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

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

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

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

Stranded cost recoveries represent the recovery, through charges to electricity customers in upstate New York and New England, of historical generation-related costs, related to generation assets that are no longer owned by National Grid. Such costs have been recovered from customers as permitted by regulatory agreements, which was completed by 31 March 2013.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

103

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

4 . Exceptional items, remeasurements and stranded cost recoveries continued

	2015	2014	2013
	£m	£m	£m
Included within operating profit			
Exceptional items:			
Restructuring costs ¹		(136)	(87)
Gas holder demolition costs ²		(79)	
LIPA MSA transition ³		254	
Other ⁴		16	
Net gain on disposal of businesses ⁵			3
Remeasurements – commodity contracts	(83)	55	(84)
Stranded cost recoveries ⁷		16	180
	(83)	71	110
Included within finance costs			
Exceptional items:			
Debt redemption costs ⁸	(131)		
Remeasurements – net (losses)/gains on derivative financial instruments	(34)	93	68
	(165)	93	68
Total included within profit before tax	(248)	164	178
Included within tax			
Exceptional credits/(charges) arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK corporation tax rate ¹⁰	6	398	128
Deferred tax charge arising from an increase in US state income tax rates ¹¹		(8)	
Tax on exceptional items	28	(57)	31
Tax on remeasurements ^{6,8}	44	(36)	(92)
Tax on stranded cost recoveries			(5)

	78	297	62
Total exceptional items, remeasurements and stranded cost recoveries after tax	(170)	461	240
Analysis of total exceptional items, remeasurements and stranded cost recoveries after tax			
Exceptional items after tax	(97)	388	75
Remeasurements after tax	(73)	73	156
Stranded cost recoveries after tax			9
Total exceptional items, remeasurements and stranded cost recoveries after tax	(170)	461	240

1. No exceptional restructuring costs have been incurred in the year ended 31 March 2015. Restructuring costs for 2014 included: costs related to the continued restructuring of our UK operations in preparedness to deliver RIIO, other transformation-related initiatives in the UK and US and an associated software impairment for licences that will no longer be used. For the year ended 31 March 2013, restructuring costs included: costs for the restructuring of our UK operations of £66m in preparedness for delivering RIIO; costs for transformation-related initiatives in the UK and US of £31m; and a credit of £10m for the release of restructuring provisions in the UK recognised in prior years.
2. No further provision (2014: £79m) has been made for the demolition of non-operational gas holders in the UK.
3. For the year ended 31 March 2014, a net gain of £254m was recognised. This included a pension curtailment and settlement (£214m) for employees who transferred to a new employer following the cessation of the Management Services Agreement (MSA) with the Long Island Power Authority (LIPA) on 31 December 2013. There was also a gain of £142m following the extinguishment of debt obligations of £98m and a £56m cash payment received, in compensation for the Company forgiving an historical pension receivable and carrying charges. These gains were offset by transition costs and other provisions incurred to effect the transition.
4. During the year ended 31 March 2014, £16m was received following the sale to a third party of a settlement award which arose as a result of a legal ruling in 2008.
5. For the year ended 31 March 2013, we recognised a gain of £3m on the disposal of two subsidiaries in New Hampshire.
6. Remeasurements commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.
7. For the year ended 31 March 2013, stranded cost recoveries of £14m substantially represented the release of an unutilised provision recognised in a prior period.
8. Represents costs arising from a liability management programme. We have reviewed and restructured the Group debt portfolio following the commencement of the RIIO price controls in 2013 and the slow down in our

planned short term UK capital investment programme as the industry assesses the impact of EMR. This resulted in a bond repurchase programme with a notional value of £924m.

9. Remeasurements net (losses)/gains on derivative financial instruments comprise (losses)/gains 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. The tax charge in the year includes a credit of £1m (2014: £nil; 2013: £1m) in respect of prior years.

10. The Finance Act 2013 enacted reductions in the UK corporation tax rate from 23% to 21% from 1 April 2014, and from 21% to 20% from 1 April 2015. Other UK tax legislation also reduced the UK corporation tax rate in prior periods (2013: from 24% to 23%). These reductions have resulted in decreases to UK deferred tax liabilities in these periods.

11. The exceptional tax charge in the prior year arose from a net increase in US state income tax rates. Effective from 1 April 2014, the state income tax rate for Massachusetts regulated utilities increased from 6.5% to 8% and, effective from 1 April 2016, the state income tax rate for New York will decrease from 7.1% to 6.5%.

Table of Contents**5. Finance income and costs**

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on our pensions and other post-retirement assets, which is offset by the interest payable on pensions and other post-retirement obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, the current year debt redemption costs have been treated as exceptional (see note 4).

	2015	2014	2013
	£m	£m	£m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	28	22	20
Gains on disposal of available-for-sale investments	8	14	10
	36	36	30
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	(101)	(128)	(135)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	(45)	(61)	(65)
Other borrowings	(992)	(1,109)	(1,052)
Derivatives	56	79	51
Unwinding of discount on provisions	(73)	(73)	(75)
Less: interest capitalised ¹	86	148	122
	(1,069)	(1,144)	(1,154)

Exceptional items			
Debt redemption costs	(131)		
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements ² :			
Ineffectiveness on derivatives designated as:			
Fair value hedges ³	36	22	17
Cash flow hedges	(13)	4	(7)
Net investment hedges	2	38	(26)
Net investment hedges undesignated forward rate risk	33	(7)	26
Derivatives not designated as hedges or ineligible for hedge accounting	(92)	36	58
	(165)	93	68
	(1,234)	(1,051)	(1,086)
Net finance costs	(1,198)	(1,015)	(1,056)

1. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.8% (2014: 4.5%; 2013: 4.4%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £24m (2014: £32m). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.

2. Includes a net foreign exchange gain on financing activities of £636m (2014: £268m gain; 2013: £32m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

3. Includes a net gain on instruments designated as fair value hedges of £219m (2014: £183m loss; 2013: £67m gain) offset by a net loss of £162m (2014: £205m gain; 2013: £50m loss) arising from fair value adjustments to the carrying value of debt.

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements [continued](#)

6. Tax

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

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

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

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

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

used in the computation of taxable profit.

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

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

Table of Contents**6. Tax continued****Tax charged/(credited) to the income statement**

	2015	2014	2013
	£m	£m	£m
Tax before exceptional items, remeasurements and stranded cost recoveries	695	581	619
Exceptional tax on items not included in profit before tax (note 4)	(6)	(390)	(128)
Tax on other exceptional items, remeasurements and stranded cost recoveries	(72)	93	66
Tax on total exceptional items, remeasurements and stranded cost recoveries (note 4)	(78)	(297)	(62)
Total tax charge	617	284	557

Tax as a percentage of profit before tax

	2015	2014	2013
	%	%	%
Before exceptional items, remeasurements and stranded cost recoveries	24.2	22.5	24.4

After exceptional items, remeasurements and stranded cost recoveries	23.5	10.3	20.5
--	-------------	------	------

The tax charge for the year can be analysed as follows:

	2015	2014	2013
	£m	£m	£m
Current tax			
UK corporation tax at 21% (2014: 23%; 2013: 24%)	309	355	306
UK corporation tax adjustment in respect of prior years	(2)	(9)	(17)
	307	346	289
Overseas corporation tax	51	54	50
Overseas corporation tax adjustment in respect of prior years	(62)	(88)	(222)
	(11)	(34)	(172)
Total current tax	296	312	117
Deferred tax			
UK deferred tax	123	(292)	35
UK deferred tax adjustment in respect of prior years	7	(3)	(17)
	130	(295)	18
Overseas deferred tax	138	276	283
Overseas deferred tax adjustment in respect of prior years	53	(9)	139
	191	267	422
Total deferred tax	321	(28)	440
Total tax charge	617	284	557

Adjustments in respect of prior years include the following amounts that relate to exceptional items, remeasurements and stranded cost recoveries: £1m credit (2014: £nil; 2013: £1m credit).

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

107

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

6. Tax continued**Tax (credited)/charged to other comprehensive income and equity**

	2015	2014	2013
	£m	£m	£m
Current tax			
Share-based payment	(7)	(3)	1
Available-for-sale investments	5	(5)	
Deferred tax			
Available-for-sale investments	2	2	2
Cash flow hedges	(18)	5	13
Share-based payment	3	(4)	1
Remeasurements of net retirement benefit obligations	(299)	172	(179)
	(314)	167	(162)
Total tax recognised in the statement of comprehensive income	(310)	174	(164)
Total tax relating to share-based payment recognised directly in equity	(4)	(7)	2
	(314)	167	(162)

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher (2014: lower; 2013: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%; 2013: 24%):

Before	After	Before	After	Before	After
exceptional	exceptional	exceptional	exceptional	exceptional	exceptional
items,	items,	items,	items,	items,	items,
				remeasurements	remeasurements

Edgar Filing: NATIONAL GRID PLC - Form 20-F

	remeasurements and stranded cost recoveries 2015 £m	remeasurements and stranded cost recoveries 2015 £m	remeasurements and stranded cost recoveries 2014 £m	remeasurements and stranded cost recoveries 2014 £m	stranded cost recoveries 2013 £m	and stranded cost recoveries 2013 £m
Profit before tax						
Before exceptional items, remeasurements and stranded cost recoveries	2,876	2,876	2,584	2,584	2,533	2,533
Exceptional items, remeasurements and stranded cost recoveries		(248)		164		178
Profit before tax	2,876	2,628	2,584	2,748	2,533	2,711
Profit before tax multiplied by UK corporation tax rate of 21% (2014: 23%; 2013: 24%)	604	552	594	632	608	651
Effect of:						
Adjustments in respect of prior years	(3)	(4)	(109)	(109)	(116)	(117)
Expenses not deductible for tax purposes	31	327	32	284	37	169
Non-taxable income	(20)	(320)	(24)	(268)	(24)	(152)
Adjustment in respect of foreign tax rates	91	77	98	138	116	140
Impact of share-based payment	(1)	(1)	(3)	(3)	2	2
Deferred tax impact of change in UK and US tax rates		(6)		(390)		(128)
Other	(7)	(8)	(7)		(4)	(8)
Total tax charge	695	617	581	284	619	557
	%	%	%	%	%	%
Effective tax rate	24.2	23.5	22.5	10.3	24.4	20.5

Table of Contents**6. Tax continued****Tax included within the statement of financial position**

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

	Accelerated tax depreciation £m	Share- based payment £m	Pensions and other post- retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax (assets)/liabilities						
Deferred tax assets at 31 March 2013	(2)	(15)	(1,362)	(16)	(777)	(2,172)
Deferred tax liabilities at 31 March 2013	5,963		154	9	123	6,249
At 1 April 2013	5,961	(15)	(1,208)	(7)	(654)	4,077
Exchange adjustments (Credited)/charged to income statement	(282)	(30)	78	141	59	(145)
(Credited)/charged to other comprehensive income and equity		(3)	141	(7)	(126)	(25)
		(4)	172	7		175
At 31 March 2014	5,649	(22)	(817)	(7)	(721)	4,082
Deferred tax assets at 31 March 2014	(1)	(22)	(960)	(13)	(796)	(1,792)
Deferred tax liabilities at 31 March 2014	5,650		143	6	75	5,874
At 1 April 2014	5,649	(22)	(817)	(7)	(721)	4,082
Exchange adjustments Charged/(credited) to income statement	408		(99)	(2)	(104)	203
Charged/(credited) to other comprehensive income and equity	599	1	38	(34)	(280)	324
		3	(299)	(16)		(312)

At 31 March 2015	6,656	(18)	(1,177)	(59)	(1,105)	4,297
Deferred tax assets at 31 March 2015	(1)	(18)	(1,337)	(64)	(1,186)	(2,606)
Deferred tax liabilities at 31 March 2015	6,657		160	5	81	6,903
	6,656	(18)	(1,177)	(59)	(1,105)	4,297

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £4,297m (2014: £4,082m).

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2015 £m	2014 £m
Capital losses	250	274
Non-trade deficits	1	1
Trading losses	4	5

The capital losses and non-trade deficits that arise in the UK are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arising in the US have up to a 20 year carry forward time limit.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the reporting date is approximately £773m (2014: £2,118m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of UK tax legislation, which largely exempts overseas dividends received, the temporary differences are unlikely to lead to additional tax.

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements continued

Unaudited commentary on tax

Tax strategy

National Grid manages its tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. As a regulated public utility we are very conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Management responsibility and oversight for our tax strategy, which is approved by the Finance Committee, rests with the Finance Director and the Global Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total UK tax contribution

This is the third year we have disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year on year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

For 2014/15 our total tax contribution to the UK Exchequer was £1.5bn (2013/14: £1.4bn). Taxes borne in 2015 were £761m, a 4% increase on taxes borne in 2014 of £733m and primarily due to higher corporation tax payments in the current year. Our 2013/14 total tax contribution of £1.4bn resulted in National Grid being the 13th highest contributor of UK taxes based on the results of the Hundred Group's 2014 Total Tax Contribution Survey, a position commensurate with the size of our business and capitalisation relative to other contributors to the Survey. In 2013 we were in 17th position. In 2014 we ranked 9th in respect of taxes borne.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The Hundred Group's 2014 Total Tax Contribution Survey ranks National Grid in 4th place in respect of UK capital expenditure on fixed assets. For instance, National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

The most significant amounts making up the 2014/15 total tax contribution were as follows:

UK total tax contribution 2014/15

Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2014/15.

The tax charge for the Group as reported in the income statement is £617m (2013/14: £284m). The UK tax charge is £437m (2013/14: £51m) and UK corporation tax paid was £353m (2013/14: £329m), with the principal differences between these two measures as follows:

Reconciliation of UK total tax charge	Year ended 31 March	
	2015	2014
to UK corporation tax paid	£m	£m
Total UK tax charge (current tax £307m (2014: £346m) and deferred tax £130m (2014: £295m credit))	437	51
Adjustment for non-cash deferred tax (charge)/credit	(130)	295
Adjustments for current tax credit in respect of prior years	2	9
UK current tax charge	309	355
UK corporation tax instalment payments not payable until the following year	(127)	(179)
UK corporation tax instalment payments in respect of prior years paid in current year	171	153
UK corporation tax paid	353	329

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £255m (2013/14: £280m) of which £250m (2013/14: £274m) are capital losses in the UK as set out above. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Group Finance Director is Chairman of its Tax Committee. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business.

110

Table of Contents**7. Earnings per share (EPS)**

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company. For further details of exceptional items, remeasurements and stranded cost recoveries, see note 4.

(a) Basic earnings per share

	Earnings		Earnings		Earnings	
	Earnings	per share	Earnings	per share	Earnings	per share
	2015	2015	2014	2014	2013	2013
	£m	pence	£m	pence	£m	pence
Adjusted earnings	2,189	58.1	2,015	53.5	1,913	50.9
Exceptional items after tax	(97)	(2.6)	388	10.3	75	2.0
Remeasurements after tax	(73)	(1.9)	73	1.9	156	4.1
Stranded cost recoveries after tax					9	0.2

Earnings	2,019	53.6	2,476	65.7	2,153	57.2
		2015 millions		2014 millions		2013 millions
Weighted average number of shares basic		3,766		3,766		3,761

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(b) Diluted earnings per share

	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share
	2015	2015	2014	2014	2013	2013
	£m	pence	£m	pence	£m	pence
Adjusted earnings	2,189	57.9	2,015	53.2	1,913	50.6
Exceptional items after tax	(97)	(2.6)	388	10.3	75	2.0
Remeasurements after tax	(73)	(1.9)	73	1.9	156	4.1
Stranded cost recoveries after tax					9	0.3
Earnings	2,019	53.4	2,476	65.4	2,153	57.0
		2015 millions		2014 millions		2013 millions
Weighted average number of shares diluted		3,783		3,785		3,779

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(c) Reconciliation of basic to diluted average number of shares

	2015 millions	2014 (restated) ¹ millions	2013 (restated) ¹ millions
Weighted average number of ordinary shares basic	3,766	3,766	3,761
Effect of dilutive potential ordinary shares employee share plans	17	19	18
Weighted average number of ordinary shares diluted	3,783	3,785	3,779

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Table of Contents**Financial Statements**

Notes to the consolidated financial statements

analysis of items in the primary statements continued

8. Dividends

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

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

	2015			2014			2013		
	Cash dividend paid		Scrip dividend	Cash dividend paid		Scrip dividend	Cash dividend paid		Scrip dividend
	Pence per share	£m	£m	Pence per share	£m	£m	Pence per share	£m	£m
Interim dividend in respect of the current year	14.71	531	26	14.49	539		14.49	340	187
Final dividend in respect of the prior year	27.54	740	289	26.36	520	444	25.35	470	436
	42.25	1,271	315	40.85	1,059	444	39.84	810	623

The Directors are proposing a final dividend for the year ended 31 March 2015 of 28.16p per share that will absorb approximately £1,054m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 5 August 2015 to shareholders who are on the register of members at 5 June 2015 and a scrip dividend will

be offered as an alternative, subject to shareholders' approval at the Annual General Meeting.

Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

Dividend cover

Ratio of earnings cover over dividend paid to shareholders

With the exception of the 2013/14 interim dividend paid in January 2014, a scrip option has been offered for all interim and final dividends in the last four years. The scrip take-up as a percentage of total shares outstanding (excluding treasury shares) since 2012/13 was as follows: 2014/15 interim 5%; 2013/14 final 28%; 2013/14 interim n/a; 2012/13 final 46%; and 2012/13 interim 35%.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full-year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

Table of Contents

9. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Impairment

Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairments of goodwill are calculated as the difference between the carrying value of the goodwill and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

	Total
	£m
Net book value at 1 April 2013	5,028
Additions	12
Exchange adjustments	(446)
Net book value at 31 March 2014	4,594
Impairment	(12)
Exchange adjustments	563
Net book value at 31 March 2015	5,145

The cost of goodwill at 31 March 2015 was £5,157m (2014: £4,594m) with an accumulated impairment charge of £12m (2014: £nil).

The amounts disclosed above as at 31 March 2015 include balances relating to the following cash-generating units: New York £2,964m (2014: £2,640m); Massachusetts £1,108m (2014: £987m); Rhode Island £412m (2014: £367m); and Federal £661m (2014: £600m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years has been maintained at 2.25% (2014: 2.25%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business place in the underlying US economy, it is appropriate for the

terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 9% (2014: 9%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

As part of their review, the Directors specifically reviewed the carrying value of goodwill associated with Clean Line Energy Partners LLC. This review resulted in a full impairment being recorded of £12m.

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements continued

10. Other intangible assets

Other intangible assets include software and acquisition-related assets (such as brand names and customer relationships), which are written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

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

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the statement of financial position at their fair value. Acquisition-related intangible assets principally comprise customer relationships.

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Other intangible assets are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

	Years
Software	3 to 10
Acquisition-related intangibles	10 to 25

	Software £m	Acquisition- related £m	Total £m
Cost at 1 April 2013	1,031	122	1,153
Exchange adjustments	(38)	(7)	(45)
Additions	179		179
Disposals	(16)	(115)	(131)
Reclassifications ¹	66		66
Cost at 31 March 2014	1,222		1,222
Exchange adjustments	59		59
Additions	207		207
Reclassifications ¹	16		16
Cost at 31 March 2015	1,504		1,504
Accumulated amortisation at 1 April 2013	(442)	(122)	(564)
Exchange adjustments	12	7	19
Amortisation charge for the year	(127)		(127)
Impairment charge	(5)		(5)
Disposals	12	115	127
Reclassifications ¹	(3)		(3)
Accumulated amortisation at 31 March 2014	(553)		(553)
Exchange adjustments	(20)		(20)
Amortisation charge for the year	(121)		(121)
Reclassifications ¹	(8)		(8)
Accumulated amortisation at 31 March 2015	(702)		(702)
Net book value at 31 March 2015	802		802
Net book value at 31 March 2014	669		669

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 11) and reclasses between cost and accumulated amortisation of £6m.

114

Table of Contents

11. Property, plant and equipment

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

Our strategy in action

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

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

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

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

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

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

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

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 65
Plant and machinery:	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant mains, services and regulating equipment	30 to 100
Gas plant storage	15 to 21
Gas plant meters	10 to 33
Motor vehicles and office equipment	up to 10

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

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

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

assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Material impairments are recognised in the income statement and are disclosed separately.

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

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

11. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2013	2,325	45,366	3,960	803	52,454
Exchange adjustments	(99)	(1,471)	(82)	(28)	(1,680)
Additions	69	623	2,514	56	3,262
Disposals	(32)	(288)	(2)	(98)	(420)
Reclassifications ¹	(15)	2,195	(2,366)	120	(66)
Cost at 31 March 2014	2,248	46,425	4,024	853	53,550
Exchange adjustments	132	2,019	82	47	2,280
Additions	55	544	2,514	150	3,263
Disposals	(30)	(334)	(1)	(74)	(439)
Reclassifications ¹	105	1,981	(2,104)	8	(10)
Cost at 31 March 2015	2,510	50,635	4,515	984	58,644
Accumulated depreciation at 1 April 2013	(499)	(14,806)		(557)	(15,862)
Exchange adjustments	16	399		21	436
Depreciation charge for the year ²	(84)	(1,112)		(103)	(1,299)
Impairment charge for the year	(1)				(1)
Disposals	25	234		93	352
Reclassifications ¹	107	(65)		(39)	3
Accumulated depreciation at 31 March 2014	(436)	(15,350)		(585)	(16,371)
Exchange adjustments	(15)	(533)		(29)	(577)
Depreciation charge for the year ²	(82)	(1,138)		(143)	(1,363)
Disposals	7	307		74	388
Reclassifications ¹	(4)	1		5	2
Accumulated depreciation at 31 March 2015	(530)	(16,713)		(678)	(17,921)

Net book value at 31 March 2015	1,980	33,922	4,515	306	40,723
Net book value at 31 March 2014	1,812	31,075	4,024	268	37,179

1. Represents amounts transferred between categories and (to)/from other intangible assets (see note 10).
2. Includes amounts in respect of capitalised depreciation of £2m (2014: £10m).

	2015	2014
	£m	£m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	1,506	1,409
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	184	170
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	61	25
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	47	44
Non-current liabilities	1,569	1,526

12. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2016.

	2015	2014
	£m	£m
Commodity contract assets	29	45
Other receivables	39	33
Prepayments	12	9
	80	87

Table of Contents

13. Financial and other investments

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

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

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

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

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by

using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2015	2014 ¹
	£m	£m
Non-current		
Available-for-sale investments	330	284
Current		
Available-for-sale investments	1,232	2,716
Loans and receivables	1,327	883
	2,559	3,599
	2,889	3,883
Financial and other investments include the following:		
Investments in short-term money funds ²	618	2,165
Managed investments in equity and bonds ³	785	696
Bank deposits		355
Cash surrender value of life insurance policies	158	140
Other investments	2	2
Restricted balances:		
Collateral ⁴	1,199	402
Other	127	123
	2,889	3,883

1. Comparatives have been represented on a basis consistent with current year presentation.

2. Includes £34m (2014: £nil) held by insurance captives and therefore restricted.

3. Includes £644m (2014: £667m) which is restricted and relates to investments held by insurance captives of £382m (2014: £296m), US non-qualified plan investments of £170m (2014: £141m) and assets held within security accounts with charges in favour of the UK pension scheme Trustees of £92m (2014: £230m).

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

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are past due or impaired.

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

117

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

14. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Company jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

	2015	2014
	£m	£m
Share of net assets at 1 April	351	371
Exchange adjustments	(11)	(16)
Additions		4
Share of post-tax results for the year	46	28
Dividends received	(79)	(38)
Other movements	11	2
Share of net assets at 31 March	318	351

A list of principal joint ventures and associates including the name, proportion of ownership and principal activity is provided in note 32.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates.

Outstanding balances with joint ventures and associates are shown in note 28.

15. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below. We also use derivatives to manage our operational market risks from commodities. The commodity derivative contracts are detailed in note 30(e).

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

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

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

	2015			2014		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Interest rate swaps	1,153	(978)	175	861	(743)	118
Cross-currency interest rate swaps	544	(746)	(202)	1,025	(195)	830
Foreign exchange forward contracts	18	(294)	(276)	68	(12)	56
Inflation linked swaps	1	(381)	(380)	16	(213)	(197)

1,716	(2,399)	(683)	1,970	(1,163)	807
--------------	----------------	--------------	-------	---------	-----

118

Table of Contents**15. Derivative financial instruments continued**

The maturity profile of derivative financial instruments is as follows:

	2015			Assets £m	Liabilities £m	Total £m
	Assets £m	Liabilities £m	Total £m			
Current						
Less than 1 year	177	(635)	(458)	413	(339)	74
	177	(635)	(458)	413	(339)	74
Non-current						
In 1 to 2 years	15	(97)	(82)	54	(26)	28
In 2 to 3 years	37	(252)	(215)	73	(57)	16
In 3 to 4 years	136	(238)	(102)	71	(103)	(32)
In 4 to 5 years	125	(235)	(110)	244	(128)	116
More than 5 years	1,226	(942)	284	1,115	(510)	605
	1,539	(1,764)	(225)	1,557	(824)	733
	1,716	(2,399)	(683)	1,970	(1,163)	807

For each class of derivative the notional contract¹ amounts are as follows:

	2015 £m	2014 £m
Interest rate swaps	(11,125)	(15,406)
Cross-currency interest rate swaps	(8,103)	(8,614)

Foreign exchange forward contracts	(6,579)	(4,698)
Inflation linked swaps	(1,361)	(1,391)
	(27,168)	(30,109)

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

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

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

Fair value hedges

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

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	379	367

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as

gains or losses recognised in equity and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

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

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

15. Derivative financial instruments continued**Cash flow hedges continued**

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

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

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	(453)	224
Foreign exchange forward contracts	(34)	(11)
Inflation linked swaps	(109)	(32)
	(596)	181

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2015	2014
	£m	£m
Cross-currency interest rate swaps	(72)	342
Foreign exchange forward contracts	(218)	66
	(290)	408

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

Derivatives not in a formal hedge relationship

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

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	119	15
Foreign exchange forward contracts	(24)	1
Inflation linked swaps	(271)	(165)
	(176)	(149)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

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

Table of Contents**16. Inventories and current intangible assets**

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

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

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

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2015	2014
	£m	£m
Fuel stocks	112	74
Raw materials and consumables	152	128

Work in progress		13	13
Current intangible assets	emission allowances	63	53
		340	268

There is a provision for obsolescence of £28m against inventories as at 31 March 2015 (2014: £29m).

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

17. Trade and other receivables

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

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

	2015	2014
	£m	£m
Trade receivables	1,568	1,602
Prepayments and accrued income	1,081	1,090
Commodity contract assets	35	42
Current tax assets	60	11
Other receivables	92	110
	2,836	2,855

Trade receivables are non interest-bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2015	2014
	£m	£m
At 1 April	249	261
Exchange adjustments	31	(23)
Charge for the year, net of recoveries	126	105
Uncollectible amounts written off against receivables	(112)	(94)
At 31 March	294	249

Trade receivables past due but not impaired

	2015	2014 ¹
	£m	£m
Up to 3 months past due	299	285
3 to 6 months past due	60	57
Over 6 months past due	156	91
	515	433

1. Comparatives have been represented on a basis consistent with the current year presentation.

For further information on our wholesale and retail credit risk, refer to note 30(a). For further information on our commodity risk, refer to note 30(e).

Table of Contents**18. Cash and cash equivalents**

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

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2015	2014
	£m	£m
Cash at bank	109	75
Short-term deposits	10	279
Cash and cash equivalents excluding bank overdrafts	119	354
Bank overdrafts	(3)	(15)
Net cash and cash equivalents	116	339

At 31 March 2015, £1m (2014: £24m) of cash and cash equivalents were restricted. This primarily relates to cash held in captive insurance companies.

19. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 15, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action

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

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

	2015	2014
	£m	£m
Current		
Bank loans	561	1,485
Bonds	1,068	1,730
Commercial paper	1,349	252
Finance leases	44	19
Other loans	3	10
Bank overdrafts	3	15
	3,028	3,511
Non-current		
Bank loans	1,417	1,414
Bonds	21,156	20,732
Finance leases	159	151
Other loans	150	142

22,882 22,439

25,910 25,950

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

123

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

19. Borrowings continued

Total borrowings are repayable as follows:

	2015	2014
	£m	£m
Less than 1 year	3,028	3,511
In 1 to 2 years	873	895
In 2 to 3 years	1,601	1,177
In 3 to 4 years	1,437	1,661
In 4 to 5 years	1,709	1,509
More than 5 years:		
by instalments	154	175
other than by instalments	17,108	17,022
	25,910	25,950

The fair value of borrowings at 31 March 2015 was £30,103m (2014: £28,131m). Where market values were available, fair value of borrowings (Level 1) was £14,583m (2014: £17,388m). Where market values were not available, fair value of borrowings (Level 2) was £15,520m (2014: £10,743m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2015 was £25,419m (2014: £25,539m).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £424m at 31 March 2015 (2014: £438m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £540m (2014: £843m) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

	2015	2014
	£m	£m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	44	19
1 to 5 years	125	89
More than 5 years	72	100
	241	208
Less: finance charges allocated to future periods	(38)	(38)
	203	170
The present value of finance lease liabilities is as follows:		
Less than 1 year	44	19
1 to 5 years	110	70
More than 5 years	49	81
	203	170

Table of Contents

Unaudited commentary on borrowings

As at 31 March 2015, total borrowings of £25,910m (2014: £25,950m) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had decreased by £40m. This represents the ongoing refinancing of the debt portfolio. We expect to repay £3,028m of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets. The average long-term debt maturity of the portfolio is 13 years (2014: 12 years).

The maturity profile of long-term debt in our major entities is illustrated below:

National Grid long-term debt maturity profile £m

1. Includes hybrid bonds at first callable date (euro: 2020; sterling: 2025). Actual maturity of these bonds is euro: 2076; sterling: 2073.

Further information on our bonds can be found in the debt investor section of our website.

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

20. Trade and other payables

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

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

	2015	2014
	£m	£m
Trade payables	2,050	1,942
Deferred income	236	224
Commodity contract liabilities	116	77
Social security and other taxes	196	146
Other payables	694	642
	3,292	3,031

Due to their short maturities, the fair value of trade and other payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2016. It also includes payables that are not due until after that date.

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost.

	2015	2014
	£m	£m
Deferred income	1,648	1,605
Commodity contract liabilities	55	46
Other payables	216	190
	1,919	1,841

There is no material difference between the fair value and the carrying value of other non-current liabilities.

22. Pensions and other post-retirement benefits

Substantially all our employees are members of either DB (defined benefit) or DC (defined contribution) pension plans. The principal UK plans are the National Grid UK Pension Scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme and The National Grid YouPlan. In the US, we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated plan assets and present value of DB obligations are updated annually. For further details and the actuarial assumptions used to value the obligations, see note 29.

We separately present our UK and US pension plans to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements.

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

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

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

Table of Contents

22. Pensions and other post-retirement benefits continued

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

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

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

Risks

The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

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

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

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

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

Amounts recognised in the statement of financial position

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
Present value of funded obligations	(20,053)	(18,100)	(18,495)	(5,827)	(4,566)	(4,915)	(3,412)	(2,680)	(3,020)
Fair value of plan assets	19,453	17,409	17,392	5,052	4,229	4,378	1,903	1,620	1,515
Present value of unfunded obligations	(600)	(691)	(1,103)	(775)	(337)	(537)	(1,509)	(1,060)	(1,505)
Other post-employment liabilities	(72)	(62)	(66)	(228)	(186)	(200)	(74)	(75)	(83)
Net defined benefit liability	(672)	(753)	(1,169)	(1,003)	(523)	(740)	(1,583)	(1,135)	(1,588)
Represented by:									
Liabilities	(672)	(753)	(1,169)	(1,124)	(697)	(935)	(1,583)	(1,135)	(1,588)
Assets				121	174	195			
	(672)	(753)	(1,169)	(1,003)	(523)	(740)	(1,583)	(1,135)	(1,588)

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

22. Pensions and other post-retirement benefits continued**Amounts recognised in the income statement and statement of other comprehensive income**

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
Included within operating costs									
Administration costs	6	6	6	7	5	4	1	1	2
Included within payroll costs									
Defined contribution scheme costs	26	19	16	22	21	23			
Defined benefit scheme costs:									
Current service cost	70	96	90	77	85	87	39	44	43
Past service costs									
augmentations	7	15	2						
Past service cost/(credit) redundancies	1	(19)	(7)						
Past service (credit)/cost									
plan amendments		(11)		1					
Special termination benefit cost redundancies	20	39	20						
LIPA MSA transition					(16)			(198)	
Net loss on disposal of businesses						3			1
	124	139	121	100	90	113	39	(154)	44

Included within finance income and costs									
Net interest cost	27	47	31	25	27	34	49	54	70
Total included in income statement	157	192	158	132	122	151	89	(99)	116
Remeasurements of net retirement benefit obligations	(46)	354	(560)	(408)	81	(35)	(317)	50	(119)
Exchange adjustments				(88)	60	(37)	(148)	126	(75)
Total included in the statement of other comprehensive income	(46)	354	(560)	(496)	141	(72)	(465)	176	(194)

Reconciliation of the net defined benefit liability

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
Opening net defined benefit liability	(753)	(1,169)	(668)	(523)	(740)	(766)	(1,135)	(1,588)	(1,504)
(Cost)/credit recognised in the income statement	(131)	(173)	(142)	(110)	(101)	(128)	(89)	99	(116)
Remeasurement effects recognised in the statement of other comprehensive income	(46)	354	(560)	(496)	141	(72)	(465)	176	(194)
Employer contributions	258	235	201	126	174	224	124	187	262
Other movements					3	2	(18)	(9)	(36)
Closing net defined benefit liability	(672)	(753)	(1,169)	(1,003)	(523)	(740)	(1,583)	(1,135)	(1,588)

Table of Contents**22. Pensions and other post-retirement benefits continued**

	UK pensions			US pensions			US other post-retirement benefits		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Changes in the present value of defined benefit obligations (including unfunded obligations)									
Opening defined benefit obligations	(18,162)	(18,561)	(16,775)	(4,752)	(5,115)	(4,611)	(2,680)	(3,020)	(2,630)
Current service cost	(70)	(96)	(90)	(77)	(85)	(87)	(39)	(44)	(43)
Interest cost	(762)	(780)	(788)	(235)	(221)	(232)	(130)	(123)	(133)
Actuarial gains/(losses) experience	100	16	74	(22)	(22)	1	85	47	60
Actuarial losses demographic assumptions	(95)			(125)	(129)	5	(122)	(154)	(18)
Actuarial (losses)/gains financial assumptions	(1,980)	436	(1,765)	(486)	57	(245)	(280)	49	(218)
Past service (cost)/credit redundancies	(1)	19	7		16	36		119	5
Special termination benefit cost redundancies	(20)	(39)	(20)						
Past service cost augmentations	(7)	(15)	(2)						
Past service credit plan amendments		11		(1)				19	
Medicare subsidy received							(19)	(17)	(19)
Liabilities extinguished on settlements								60	
Employee contributions	(2)	(2)	(3)						
Benefits paid	874	849	801	269	291	269	125	117	123
Exchange adjustments				(626)	456	(251)	(352)	267	(147)
Closing defined benefit obligations	(20,125)	(18,162)	(18,561)	(6,055)	(4,752)	(5,115)	(3,412)	(2,680)	(3,020)

Changes in the fair value of plan assets									
Opening fair value of plan assets	17,409	17,392	16,107	4,229	4,378	3,850	1,620	1,515	1,192
Interest income	735	733	757	210	194	198	81	69	63
Return on assets greater/(less)than assumed	1,929	(98)	1,131	225	175	204		108	57
Administration costs	(6)	(6)	(6)	(7)	(5)	(4)	(1)	(1)	(2)
Employer contributions	258	235	201	126	174	224	124	187	262
Employee contributions	2	2	3						
Benefits paid	(874)	(849)	(801)	(269)	(291)	(269)	(125)	(117)	(123)
Assets distributed in settlements and transfers						(39)			(6)
Exchange adjustments				538	(396)	214	204	(141)	72
Closing fair value of plan assets	19,453	17,409	17,392	5,052	4,229	4,378	1,903	1,620	1,515
Actual return on plan assets	2,664	635	1,888	435	369	402	81	177	120
Expected contributions to plans in the following year	225	182	181	204	118	183	104	109	196

Table of Contents

Financial Statements

Notes to the consolidated financial statements

analysis of items in the primary statements continued

23. Provisions

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

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making.

Our strategy in action

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

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

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

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

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

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2013	1,198	81	53	8	420	1,760
Exchange adjustments	(79)	(7)		(1)	(25)	(112)
Additions	11	84	86	7	42	230
Unused amounts reversed	(14)		(1)		(3)	(18)
Unwinding of discount	57				16	73
Utilised	(101)	(14)	(59)		(114)	(288)
At 31 March 2014	1,072	144	79	14	336	1,645
Exchange adjustments	95	8		2	28	133
Additions	25	7	9	7	57	105
Unused amounts reversed	(5)		(2)		(5)	(12)
Unwinding of discount	57	3	1		12	73
Utilised	(80)	(25)	(48)		(56)	(209)
At 31 March 2015	1,164	137	39	23	372	1,735
					2015	2014
					£m	£m
Current					235	282
Non-current					1,500	1,363
					1,735	1,645

Table of Contents**23. Provisions continued****Environmental provision**

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2015			2014		
	Discounted	Undiscounted	Real discount rate	Discounted	Undiscounted	Real discount rate
	£m	£m	rate	£m	£m	rate
UK sites	286	367	2%	286	367	2%
US sites	878	999	2%	786	891	2%
	1,164	1,366		1,072	1,258	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2015 and 2060. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred between 2015 and 2071. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision represents £51m (2014: £55m) of expenditure relating to asset retirement obligations expected to be incurred until 2075, and £64m (2014: £72m) of expenditure relating to the demolition of gas holders expected to be incurred until 2022. It also includes the net present value of the estimated expenditure (discounted at a real rate of 2%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns.

Restructuring provision

The restructuring provision principally relates to business reorganisation costs in the UK and is expected to be incurred until 2023.

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Other provisions

Included within other provisions at 31 March 2015 are amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £117m (2014: £117m) with expenditure expected to be incurred until 2039.

Other provisions also include £182m (2014: £160m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. It also includes £13m (2014: £13m) in respect of obligations associated with investments in joint ventures.

Table of Contents**Financial Statements****Notes to the consolidated financial statements**

analysis of items in the primary statements continued

24. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominantly to satisfy employee share option plan liabilities.

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

	Allotted, called up and fully paid	
	million	£m
At 1 April 2013	3,795	433
Issued during the year in lieu of dividends ¹	59	6
At 31 March 2014	3,854	439
Issued during the year in lieu of dividends ¹	38	4
At 31 March 2015	3,892	443

1. The issue of shares under the scrip dividend programme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of 11 $\frac{17}{43}$ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

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

Treasury shares

At 31 March 2015, the Company held 153m (2014: 124m) of its own shares. The market value of these shares as at 31 March 2015 was £1,323m (2014: £1,019m).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2015:

1. During the year, the Company, as part of management of the dilutive effect of share issuances under the scrip dividend programme, repurchased 37m ordinary shares for aggregate consideration of £338m, including transaction costs. The shares repurchased have a nominal value of £4m and represented approximately 1% of the ordinary shares in issue as at 31 March 2015.
2. During the year, 3m (2014: 2m) treasury shares were gifted to National Grid Employee Share Trusts and 5m (2014: 3m) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2014: 0.1%) of the ordinary shares in issue as at 31 March 2015. The nominal value of these shares was £1m (2014: £1m) and the total proceeds received were £23m (2014: £14m).
3. During the year, the Company made payments totalling £7m (2014: £3m) to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 153m ordinary shares (2014: 129m) representing approximately 3.9% (2014: 3.4%) of the ordinary shares in issue as at 31 March 2015 and having a nominal value of £17m (2014: £15m).

Table of Contents

25. Other equity reserves

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

Other equity reserves comprise the translation reserve (see accounting policy B in note 1), cash flow hedge reserve (see note 15), available-for-sale reserve (see note 13), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merg