Company Registration Number: 3900804

Lattice Group Limited

Annual Report and Financial Statements

For the year ended 31 March 2017

Lattice Group Limited

Strategic Report

For the year ended 31 March 2017

The Directors present their Strategic Report on the Company for the year ended 31 March 2017.

Review of the business

The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany balances. In addition, the Company acts as the sponsoring company of Section A of the National Grid UK Pension Scheme.

On 3 October 2016, the Company re-registered as a private limited company, Lattice Group Limited, a company limited by shares. The Company was previously registered as a public limited company limited by shares, Lattice Group plc.

Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the profit and loss account. The Company has received £5,917 million (2016: £620 million) of dividend income from its subsidiary, National Grid Gas Holdings Limited and has paid an interim dividend of £5,917 million (2016: £620 million) to its immediate parent company, National Grid Holdings One plc. In addition, the Company has received income of £172 million (2016: £100 million) for the recharge of additional National Grid UK pension payments to participating companies within the National Grid group.

With effect from 1 January 2017, sectionalisation of the National Grid UK Pension Scheme ('the Scheme') was carried out in anticipation of a group business disposal. The Scheme was split into three sections, each of which are legally and actuarially separate. Section A is supported by the Company and these financial statements include the transactions of the full scheme to 31 December 2016 and Section A from 1 January 2017 onwards. The pension assets of £12,650 million and obligations of £12,894 million of Sections B and C of the Scheme were transferred to two companies within the National Grid group at that time. In addition, an unfunded pension obligation of £2 million was also transferred which resulted in the recognition of a total settlement gain of £246 million through the profit and loss account.

There were no other significant changes in the Company's investments or intercompany balances.

Results, as detailed below, largely depend on investment income received.

Results

The Company's profit for the financial year was £6,302 million (2016: £729 million).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2017 was £2,503 million (2016: £2,618 million) comprising fixed asset investments of £675 million (2016: £675 million), net current assets of £1,909 million (2016: £2,019 million) less provisions for liabilities and charges of £52 million (2016: £46 million) and pension benefit obligations of £29 million (2016: £30 million).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2016/17, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the profit and loss account will continue in the foreseeable future with no anticipated significant balance sheet movements.

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

A Morgan
Company Secretary
2 August 2017

Lattice Group Limited

Directors' Report

For the year ended 31 March 2017

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Dividends

During the year the Company has paid an interim ordinary dividend totalling £5,917 million (2016: £620 million).

The Directors do not recommend the payment of a final ordinary dividend (2016: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit and interest rate cash flow risks. These risks are monitored through a National Grid Treasury ('Treasury') management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

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

Credit risk

No exposure is considered to exist in respect of intercompany loans as fully recoverable from within the National Grid group.

Interest rate cash flow risk

The Company has both interest bearing intercompany assets and interest bearing intercompany liabilities. To the extent that the Company enters into intercompany loan agreements, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon sterling LIBOR.

Directors

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

A J Agg	
F L Beaney	
D C Bonar	
A R J Bonfield	
M C Cooper	(Resigned 31 March 2017)
H Hill	(Appointed 1 July 2017)
S C Humphreys	
W J Jackson	
A K Mead	
M D Noble	(Resigned 1 July 2017)
D A Preston	
C J Waters	

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance cover for each Director.

Going concern

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

Modern Slavery Act

In accordance with the Modern Slavery Act 2015 (section 54 part 6), the Board of Lattice Group Limited has adopted and approved the Statement on the prevention of slavery and human trafficking of its parent company, National Grid plc. A copy of the Statement is available on the National Grid plc website.

Disclosure of information to auditors

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

Auditors

At the 2017 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were appointed as external auditor to the group. Accordingly, PricewaterhouseCoopers LLP will not be seeking re-appointment as auditor of the Company at the conclusion of their current term of office. There were no circumstances connected with the resignation of PricewaterhouseCoopers LLP as external auditor which should be brought to the attention of members or creditors of the Company.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors' Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

A Morgan
Company Secretary
2 August 2017

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 3900804

Independent auditors' report to the members of

Lattice Group Limited

Report on the financial statements

Our opinion

In our opinion, Lattice Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the 'Annual Report') comprise:

- the balance sheet as at 31 March 2017;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Lattice Group Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 August 2017

Lattice Group Limited

Profit and loss account

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Other operating income	2	**172**	100
Settlement gain on transfer of pension obligation	13	**246**	-
Operating profit	2	**418**	100
Income from shares in a subsidiary undertaking		**5,917**	620
Interest receivable and similar income	4	**25**	17
Interest payable and similar charges	5	**-**	(4)
Profit before tax		**6,360**	733
Tax	6	**(58)**	(4)
Profit for the financial year		**6,302**	729

The results reported above relate to continuing activities.

Lattice Group Limited

Statement of comprehensive income

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Profit for the financial year		**6,302**	729
Other comprehensive (loss)/income			
Items that will never be reclassified to profit or loss			
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	13	**(594)**	357
Tax on items that will never be reclassified to profit or loss	6	**94**	(85)
Total items that will never be reclassified to profit or loss		**(500)**	272
Other comprehensive (loss)/income for the year, net of tax		**(500)**	272
Total comprehensive income for the year		**5,802**	1,001

Lattice Group Limited

Balance sheet

As at 31 March 2017

	Notes	2017 £m	2016 £m
Fixed asset investments	8	**675**	675
Current assets			
Debtors (amounts falling due within one year)	9	**1,707**	1,872
Pension asset	13	**335**	285
Total current assets		**2,042**	2,157
Creditors (amounts falling due within one year)	10	**(133)**	(138)
Net current assets		**1,909**	2,019
Total assets less current liabilities		**2,584**	2,694
Provisions for liabilities and charges	11	**(52)**	(46)
Pension benefit obligations	13	**(29)**	(30)
Net assets		**2,503**	2,618
Equity			
Share capital	12	**361**	361
Share premium account		**3**	3
Other reserve		**14**	14
Profit and loss account		**2,125**	2,240
Total shareholders' equity		**2,503**	2,618

The financial statements on pages 8 to 24 were approved by the Board of Directors on 2 August 2017 and were signed on its behalf by:

W J Jackson

W J Jackson
Director

Lattice Group Limited
Company registration number: 3900804

Lattice Group Limited

Statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Share premium account £m	Other reserve £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2015	361	3	14	1,859	2,237
Profit for the financial year	-	-	-	729	729
Other comprehensive income for the year	-	-	-	272	272
Total comprehensive income for the year	-	-	-	1,001	1,001
Dividends paid (note 7)	-	-	-	(620)	(620)
At 31 March 2016	361	3	14	2,240	2,618
Profit for the financial year	-	-	-	6,302	6,302
Other comprehensive loss for the year	-	-	-	(500)	(500)
Total comprehensive income for the year	-	-	-	5,802	5,802
Dividends paid (note 7)	-	-	-	(5,917)	(5,917)
At 31 March 2017	**361**	**3**	**14**	**2,125**	**2,503**

1 Summary of significant accounting policies

Lattice Group Limited is a private limited company, limited by shares. The Company is incorporated and domiciled in England with its registered office at 1-3 Strand, London, WC2N 5EH.

(a) Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2016 comparative financial information has also been presented on this basis.

These financial statements are presented in the format as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements, as it is included within the consolidated financial statements of National Grid plc.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosure in respect of transactions with National Grid plc and its subsidiaries;
- disclosure in respect of capital management; and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of National Grid plc which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2018.

The preparation of financial statements may require 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 income and expenses during the reporting period. Actual results could differ from these estimates.

The areas of judgement that has the most significant effect on the amounts recognised in the financial statements is the recognition of the surplus in respect of defined benefit pension scheme and the categorisation of certain items as exceptional items as detailed in note 13. Similarly, the key source of estimation uncertainty that has significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relates the estimation of liabilities for pensions as detailed in note 13. In order to illustrate the impact that changes in assumptions could have on the results and financial position, sensitivity analysis has been provided in note 13.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

1 Summary of significant accounting policies (continued)

(b) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any provisions for impairment.

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

(c) Tax

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

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

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

1 Summary of significant accounting policies (continued)

(d) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the profit and loss account.

Borrowings, which include interest-bearing loans 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 proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

(e) Pensions

Prior to sectionalisation on 1 January 2017, the National Grid group had no stated policy on the allocation of the accounting asset/(liability) relating to the National Grid UK Pension Scheme so in its role as sponsoring employer of the scheme the Company included this accounting asset/(liability) within these financial statements. Following sectionalisation only Section A of this scheme is reflected within these financial statements. This is a defined benefit scheme where members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service.

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

The liability recognised in the balance sheet is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of scheme assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality bonds.

The Company 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 asset/liability recognised in the balance sheet and amounts recognised in the profit and loss account and the statement of other comprehensive income.

Remeasurement of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income. The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

(f) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Operating profit

Other operating income of £172 million (2016: £100 million) represents the recharge of National Grid UK Pension Scheme additional payments to fellow participating members of the scheme.

Audit fees of £13,000 (2016: £13,000) have been borne by the immediate parent company and not recharged.

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 8 Directors (2016: 8) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2016: none).

4 Interest receivable and similar income

	2017 £m	2016 £m
Interest receivable from fellow subsidiary undertakings	6	5
Interest receivable from ultimate parent company	10	12
Net interest receivable on pension assets and post-retirement benefit obligations	9	-
	25	17

5 Interest payable and similar charges

	2017 £m	2016 £m
Net interest payable on pension assets and post-retirement benefit obligations	-	4

6 Tax

Tax charged to profit and loss account

	2017 £m	2016 £m
Current tax:		
UK corporation tax	(40)	4
Adjustments in respect of prior years	(2)	-
	(42)	4
Deferred tax:		
Origination and reversal of timing differences	100	-
Total tax charge	58	4

6 Tax (continued)

Tax (credited)/charged to statement of comprehensive income

	2017 £m	2016 £m
Deferred tax		
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	**(94)**	85

The tax charge for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
Profit before tax	**6,360**	733
Profit before tax multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	**1,272**	147
Effect of:		
Non-taxable income from shares in subsidiary undertakings	**(1,183)**	(124)
Taxation on transfer pricing adjustments	**(1)**	(1)
Deferred tax impact of change in UK tax rate	**(28)**	(18)
Adjustments in respect of prior years	**(2)**	-
Total tax charge for the year	**58**	4

Factors that may affect future tax charges

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

Continuing focus on tax reform during 2016/17, specifically the Organisation for Economic Co-Operation and Development's Base Erosion and Profit Shifting ('BEPS') project to address mismatches in international rules resulted in draft legislation on areas such as interest deductibility being issued during the year. The Directors will continue to monitor developments and assess the potential impact for the Company of these and any further initiatives.

Whilst the UK remains part of the EU, the evolution of the application of EU tax competition regulations continues to create uncertainty over tax legislation and at this stage it is not possible to quantify any potential impact on the financial statements.

7 Dividends

	2017 £m	2016 £m
Equity – ordinary		
Interim paid: 163.75p (2016: 17.16p) per £0.10 share	**5,917**	620

8 Fixed asset investments

	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2016 and 31 March 2017	695
Provision:	
At 1 April 2016 and 31 March 2017	20
Net book value:	
At 31 March 2017 and 31 March 2016	**675**

As previously reported in the prior year, the Company's subsidiary undertaking, National Grid Blue Power Finance Limited was officially dissolved on 19 January 2016.

The Company's subsidiary undertakings as at 31 March 2017 were as follows:

Name of subsidiary	% Holding	Principal activity
National Grid Blue Power Limited	100	Dormant
National Grid Commercial Holdings Limited	100	Investment holding company and provision of corporate centre services
National Grid Gas Holdings Limited	100	Investment holding company
National Grid Grain LNG Limited	100	Gas storage company
National Grid Smart Limited	100	Dormant
National Grid Energy Metering Limited	100	Dormant

The above subsidiaries are registered in England and Wales with a registered office at 1-3 Strand, London, WC2N 5EH.

The Directors believe that the carrying values of the investments are supported by the value of their underlying net assets.

The Company also controls indirectly through its subsidiary undertakings a number of companies.

Subsidiary undertakings incorporated in England and Wales
Registered office: 1-3 Strand, London WC2N 5EH

Beegas Nominees Limited
Birch Sites Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Trustees Limited
National Grid Gas plc
National Grid Metering Limited
National Grid Property (Northfleet) Limited*
National Grid Property Holdings Limited
National Grid Twenty Eight Limited
National Grid Twenty Seven Limited
National Grid William Limited
Ngrid Intellectual Property Limited
NGT Telecom No 1 Limited
Port Greenwich Limited
Stargas Nominees Limited
Thamesport Interchange Limited

Subsidiary undertakings incorporated in the United States of America
Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, USA

British Transco Capital Inc.
British Transco Finance, Inc.

8 Fixed asset investments (continued)

Subsidiary undertakings incorporated in the Netherlands
British Transco International Finance B.V.
Registered office: Westblaak 89, 3012 KG Rotterdam, P.O. Box 21153 AD, Rotterdam, Netherlands

Subsidiary undertakings incorporated in the Cayman Islands
Registered office: c/o KPMG, PO Box 493, 2nd Floor, Century Yard, Cricket Square, Grand Cayman KY1-1106, Cayman Islands

British Transco Finance (No 1) Limited*
British Transco Finance (No 2) Limited*

Subsidiary undertakings incorporated in the Isle of Man
Lattice Telecom Finance (No 1) Limited*
Registered office: Heritage Court, 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK

Subsidiary undertakings incorporated in the Republic of Ireland
National Grid Insurance Company (Ireland) Designated Activity Company
Registered office: Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland

* In liquidation

The list below contains all indirect joint ventures.

Joint ventures incorporated in England and Wales
Joint Radio Company Limited (50%)
Registered office: Dean Bradley House, 52 Horseferry Road, London, SW1P 2AF, UK

St William Homes LLP (50%)
Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK

9 Debtors (amounts falling due within one year)

	2017 £m	2016 £m
Amounts owed by subsidiary undertakings	**96**	-
Amounts owed by immediate parent company	**601**	-
Amounts owed by fellow subsidiary undertakings	**463**	464
Amounts owed by ultimate parent company	**547**	1,408
	1,707	1,872

10 Creditors (amounts falling due within one year)

	2017 £m	2016 £m
Amounts owed to subsidiary undertakings	**-**	2
Amounts owed to immediate parent company	**-**	3
Amounts owed to fellow subsidiary undertakings	**128**	128
Other creditors	**5**	5
	133	138

11 Provisions for liabilities and charges

Deferred tax	**2017**	**2016**
	£m	**£m**
Other short-term timing differences	**52**	46

	2017	**2016**
	£m	**£m**
Deferred tax liability/(asset) at 1 April	**46**	(39)
Charged to profit and loss account	**100**	-
(Credited)/charged to equity	**(94)**	85
Deferred tax liability at 31 March	**52**	46

Deferred tax assets in respect of capital losses of £4 million (2016: £nil) have not been recognised as their future recovery is uncertain.

There are no other significant unrecognised deferred tax assets or liabilities (2016: £nil)

12 Share capital

	2017	**2016**
	£m	**£m**
Allotted, called up and fully paid		
3,613,496,929 ordinary shares of £0.10 each	**361**	361

13 Pensions

Lattice Group Limited was the sponsoring employer of the National Grid UK Pension Scheme ('the Scheme'). With effect from 1 January 2017, sectionalisation of the Scheme was carried out in anticipation of a group business disposal. The Scheme was split into three sections, each of which are legally and actuarially separate. Section A is supported by the Company and this is a defined benefit scheme and the Company accounts for pensions under FRS 101.

These financial statements include the transactions of the full scheme to 31 December 2016 and Section A of the Scheme from 1 January 2017 to 31 March 2017. The pension assets of £12,650 million and obligations of £12,894 million of Sections B and C of the Scheme were transferred to two companies within the National Grid group at that time. In addition, an unfunded pension obligation of £2 million was also transferred which resulted in the recognition of a total settlement gain of £246 million through the profit and loss account.

Role of Trustees

The defined benefit arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by a trustee company with a board consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuation was carried out as at 30 September 2015. The first actuarial valuation for Section A will be carried out at 31 March 2017 and the valuation process has commenced.

13 Pensions (continued)

Funding valuation
Following the actuarial valuation at 31 March 2013, deficit contributions were paid during the year to the Scheme of £101 million (2016: £100 million).

The last full actuarial valuation was carried out by Willis Towers Watson as at 30 September 2015. The market value of the Scheme's assets was £16,551 million and the value of the assets represented approximately 91% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 30 September 2015 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £1,625 million (£1,349 million net of tax).

Within the September 2015 actuarial funding valuation, based on long-term financial assumptions, the contribution rate agreed to meet future benefit accrual was 36% of pensionable earnings (currently 31% by employers and 5% by employees) In addition, National Grid makes payments to the Scheme to cover administration costs and the Pension Protection Fund levy.

Section A
National Grid and the Trustees have agreed on a schedule of contributions, under which payments of £212 million were made during the year after sectionalisation. National Grid has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to National Grid plc's credit rating. At 31 March 2017 the value of this was required to be £315 million. This was provided via £227 million in letters of credit with the remainder in surety bonds. The assets held as security will be paid to Section A in the event that National Grid plc or National Grid UK Limited is subject to an insolvency event, if National Grid fails to make the required contributions in relation to Section A, or if National Grid plc's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days. The assets held as security will be released back to National Grid if the Scheme moves into surplus. In addition, National Grid will make a payment of £72 million (increased in line with RPI) into Section A if National Grid plc's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

This scheme ceased to allow new hires to join from 1 April 2002. A DC section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan.

Risks
The pension obligations are exposed to the primary risks outlined below:

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

The Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of 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 management of foreign exchange exposure.

13 Pensions (continued)

Actuarial assumptions

Financial assumptions

The Company has applied the following financial assumptions in assessing liabilities:

	2017 %	2016 %
Discount rate (i)	**2.4**	3.3
Rate of increase in salaries (ii)	**3.5**	3.2
Rate of increase of pensions in payment	**3.2**	2.9
Rate of increase in RPI	**3.2**	2.9

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

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2014. The assumption for the rate of increase in salaries for service after this date is 2.2% (2016: 2.1%).

Demographic assumptions

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Assumed life expectations for a retiree age 65	2017 years	2016 years
Today:		
Males	**22.3**	22.4
Females	**24.4**	25.1
In 20 years:		
Males	**24.5**	24.7
Females	**26.7**	27.5

Amounts recognised in the balance sheet

	2017 £m	2016 £m
Present value of funded obligations	**(6,387)**	(16,560)
Fair value of scheme assets	**6,722**	16,845
	335	285
Present value of unfunded liabilities	**(29)**	(30)
Net defined benefit asset	**306**	255
Represented by:		
Liabilities	**(29)**	(30)
Assets	**335**	285
	306	255

These figures reflect legal and actuarial advice that National Grid have taken regarding recognition of surplus under IFRIC 14.

13 Pensions (continued)

Amounts recognised in profit and loss and statement of other comprehensive income

	2017 £m	2016 £m
Included within operating costs*		
Administration costs	**9**	11
Included within payroll costs*		
Current service cost	**36**	47
Past service costs – augmentations	**-**	1
Special termination benefit cost – redundancies	**-**	6
Amounts recharged to fellow National Grid subsidiary companies	**(45)**	(65)
Included within interest payable		
Net interest (receivable)/payable on pension assets and post-retirement benefit obligations	**(9)**	4
Included within exceptional item		
Settlement gain recognised on sectionalisation	**(246)**	-
Total included in profit and loss account*	**(255)**	4
Remeasurement losses/(gains) of pension assets and post-retirement obligations	**594**	(357)
Total included in the statement of other comprehensive income	**594**	(357)

* All service costs (current and past), administration fees and special termination benefit costs have been recharged to fellow National Grid subsidiary companies.

Reconciliation of the net defined benefit asset/(liability)

	2017 £m	2016 £m
Opening net defined benefit asset/(liability)	**255**	(192)
Credit/(cost) recognised in the profit and loss account	**210**	(69)
Remeasurement effects recognised in the statement of other comprehensive income	**(594)**	357
Employer contributions	**435**	159
Closing net defined benefit asset	**306**	255

13 Pensions (continued)

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

	2017 £m	2016 £m
Opening defined benefit obligations	**(16,590)**	(17,265)
Current service cost	**(36)**	(47)
Interest cost	**(443)**	(557)
Actuarial gains – experience	**97**	509
Actuarial gains – demographic assumptions	**65**	-
Actuarial losses – financial assumptions	**(3,087)**	-
Special termination benefit cost – redundancies	**-**	(6)
Past service cost – augmentations	**-**	(1)
Employee contributions	**-**	(1)
Benefits paid	**682**	778
Obligations transferred on sectionalisation	**12,896**	-
Closing defined benefit obligations	**(6,416)**	(16,590)

Changes in the fair value of scheme assets

	2017 £m	2016 £m
Opening fair value of scheme assets	**16,845**	17,073
Interest income	**452**	553
Return on assets greater/(less) than assumed	**2,331**	(152)
Administration costs	**(9)**	(11)
Employer contributions	**435**	159
Employee contributions	**-**	1
Benefits paid	**(682)**	(778)
Assets transferred on sectionalisation	**(12,650)**	-
Closing fair value of scheme assets	**6,722**	16,845
Actual return on scheme assets	**2,783**	401
Expected contributions to scheme in the following year	**6**	154

Assets allocations

	2017 £m	2016 £m
Equities – quoted (i)	**877**	2,460
Equities – unquoted	**261**	803
Corporate bonds – quoted (ii)	**1,821**	5,526
Government securities – quoted	**2,879**	5,961
Property – unquoted	**323**	987
Diversified alternatives – unquoted (iii)	**329**	505
Other – quoted (iv)	**-**	601
Other – unquoted (iv)	**232**	2
	6,722	16,845

(i) Included within equities at 31 March 2017 were ordinary shares of National Grid plc with a value of £2 million (2016: £7 million).

(ii) Included within corporate bonds at 31 March 2017 was an investment in a number of bonds issued by subsidiary undertakings with a value of £nil (2016: £70 million).

(iii) Includes return seeking non-conventional asset classes.

(iv) Includes cash and cash type instruments.

13 Pensions (continued)

Sensitivities

Sensitivities have been prepared to show how the obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2017. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations:

	2017 Profit and loss £m	2017 Net assets £m	2016 Profit and loss £m	2016 Net assets £m
Discount rate change of 0.5% (i)	**6**	**487**	7	1,239
RPI rate change of 0.5% (ii)	**5**	**386**	5	1,041
Long term rate of increase in salaries change of 0.5%	**1**	**6**	1	52
Change of one year to life expectancy at age 65	**1**	**290**	1	609

(i) A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
(ii) The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 15 years.

Company guarantee

As part of the sectionalisation of the National Grid UK Pension Scheme, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total).

14 Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

15 Ultimate parent company

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

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