

NATIONAL GRID PLC
Form 20-F
June 05, 2015
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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

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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

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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.

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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.

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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.

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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.

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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.

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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.

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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,

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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

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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.

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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.

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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.

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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.

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Strategic Report

Our business model

How we generate long-term value.

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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.

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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.

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.

Greenhouse gas emissions

See pages 18 19

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.

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.

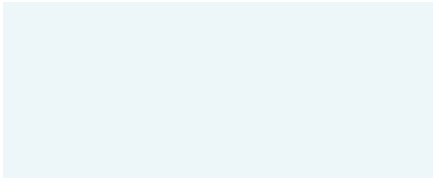
Regulated asset growth

Adjusted EPS

See pages 16 17

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.



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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.

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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.

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.

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

[See page 20](#)

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.

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.

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

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.

[See page 21](#)

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](#)

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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			
<p>1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.</p> <p>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.</p>								
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 %

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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.

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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 **Year ended 31 March** provided on page 87.

	2015	2014	2013
Total operating profit	3,780	3,735	3,749
Adjusted operating profit	3,863	3,664	3,689
Adjusted net finance	(1,033)	(1,108)	(1,124)
Electricity operations results			
Joint ventures	46	28	18
Adjusted taxation	(685)	(586)	(689)
Attributable to non-Sorand Hingos			
Shareholder interests recoveries	8	12	(14)

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:

Adjusted earnings	2,189	2,015	1,913
Adjusted EPS (pence)	58.1	53.5	50.9

	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.

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

Dividend paid