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 2017

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
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 12 204/473 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 12 204/473 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	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 2017 was

Ordinary Shares of 11 17/43 pence each	3,942,983,447

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, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐	Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

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 ☐

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 2017 and is dated 6 June 2017. Details of events occurring subsequent to the approval of the annual report on 17 May 2017 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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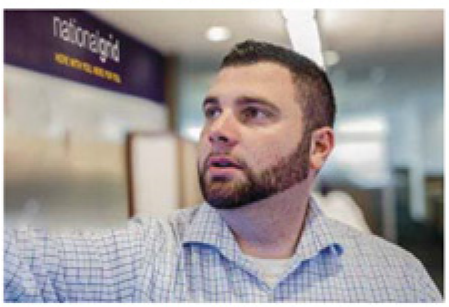
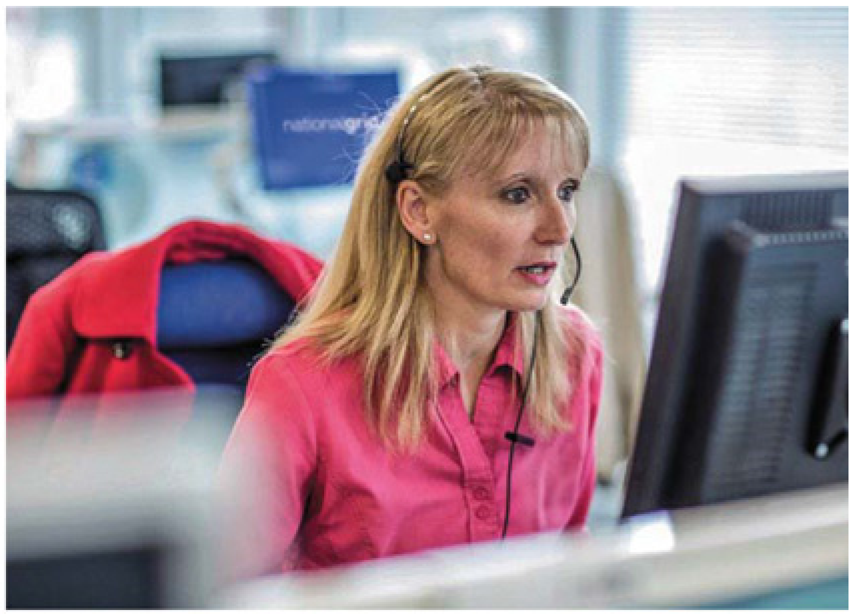
nationalgrid

Annual Report
and Accounts 2016/17

Bring Energy to Life





Right:
North Sea Link
Page 29

Below:
Switchgear replacement
in Walpole
Page 25

Highlights 2016/17

Financial highlights

Adjusted operating profit
(From continuing operations)

£3,773m
+17%
2015/16: £3,214m

Adjusted earnings per share
(From continuing operations)

56.9p
+19%
2015/16: 48.0p*

Adjusted operating profit
(Total)[1]

£4,667m
+14%
2015/16: £4,096m

Adjusted earnings per share
(Total)[1]

73.0p
+16%
2015/16: 63.2p*

Statutory operating profit
(From continuing operations)

£3,208m
-1%
2015/16: £3,225m

Statutory earnings per share
(From continuing operations)

48.1p
-5%
2015/16: 50.4p*

Statutory operating profit
(Total)[1]

£4,102m
+0.4%
2015/16: £4,085m

Statutory earnings per share
(Total)[1]

207.1p
+201%
2015/16: 68.7p*

* Comparative earnings per share (EPS) data has been restated for the impact of scrip dividend issues.
1 Comprises continuing and discontinued operations.

Operational highlights

Capital investment
(Total)[1]

£4,450m
+13%
2015/16: £3,946m

Group safety performance

0.10 IFR
+0.00 (See page 10)
2015/16: 0.10 IFR

Greenhouse gas emissions
(million tonnes carbon dioxide equivalent)

7.2
-1.4%
2015/16: 7.3

Employee engagement score
(From continuing operations)

77%
+4 percentage points
2015/16: 73%

Left:
Buffalo Niagara
Medical Campus
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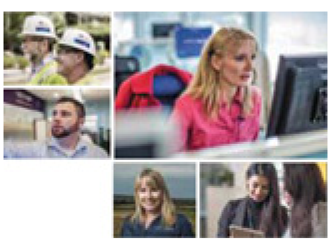
National Grid Annual Report and Accounts 2016/17

Information about our reporting
Our financial results are reported in sterling. We convert our US business results at the weighted average exchange rate during the year, which for 2016/17 was $1.28 to £1 (2015/16 $1.47 to £1).

We use adjusted profit measures which exclude the impact of exceptional items and remeasurements. These are used by management to assess the underlying performance of the business. Reconciliations to statutory financial information are shown on page 193.

Online report
The PDF of our Annual Report and Accounts 2016/17 includes a full search facility. You can find the document by visiting the investor relations section at www.nationalgrid.com and using a word search.

Further information
Throughout this report you can find links to further detail within this document or online. Please look out for the following icon:



Our people on the front cover (clockwise)
Thomas Drumm, Supervisor, Rhode Island, and **Don Wolanski**, First Class Lineman, Rhode Island. **Sue Foster**, Customer Service Advisor – Domestic Customer Operations, Solihull.
Nasima Khanom, Team Coordinator – Business Development, Blyth, and **Amanda Nock**, Governance and Compliance Officer, Solihull. **Mary Grace Welch**, Lead Economic Development Representative, New York. **Steven Abatiello**, Web Operations Manager, New York.

Strategic Report

The Strategic Report includes an overview of our strategy and business model, the principal risks we face and information about our performance. In addition to the financial review included within this section, we provide additional analysis and commentary, including the performance of our operating segments, within the unaudited commentary sections of the Financial Statements. This additional analysis forms part of our Strategic Report.

Corporate Governance

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

Financial Statements

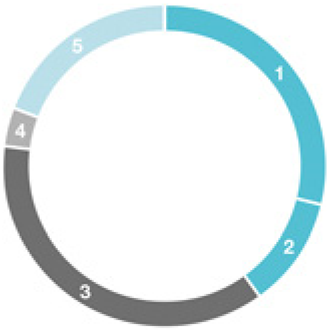
Our Financial Statements include: the independent auditors' reports; consolidated financial statements prepared in accordance with IFRS as adopted by the EU; related commentary and notes to the consolidated financial statements; and the Company's financial statements prepared in accordance with FRS 101.

Additional Information

This section includes additional disclosures and information, definitions and a glossary of terms, summary consolidated financial information, and other useful information for shareholders, including contact details for more information or help.

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 on pages 202–206 for this information as well as an important notice in relation to forward-looking statements with our cautionary statement.

Total adjusted operating profit (%)



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5. Discontinued operations	19

You can find more information about what we do on our website www.nationalgrid.com

For information about our approach to paying our taxes, please see Note 6 in the Financial Statements, on page 104.

At a glance

We are one of the world's largest investor-owned utilities focused on transmission and distribution activities in electricity and gas in the UK and the US. We play a vital role in connecting millions of people to the energy they use, safely, reliably and efficiently. We are organised into operating segments, which we describe below.

UK Electricity Transmission

We own and operate the electricity transmission network in England and Wales, with day-to-day responsibility for balancing supply and demand. We operate but do not own the Scottish networks. Our networks comprise approximately 7,200 kilometres (4,474 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 342 substations.

UK Gas Transmission

We own and operate the gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high-pressure pipe and 618 above-ground installations.

Group total adjusted operating profit*

£4,667m

2015/16: £4,096m

Adjusted operating profit

£1,372m

2015/16: £1,173m

Adjusted operating profit

£511m

2015/16: £486m

Group total statutory operating profit*

£4,102m

2015/16: £4,085m

Statutory operating profit

£1,361m

2015/16: £1,173m

Statutory operating profit

£507m

2015/16: £486m

Group total capital investment†

£4,450m

2015/16: £3,946m

Capital investment

£1,027m

2015/16: £1,084m

Capital investment

£214m

2015/16: £186m

* From continuing and discontinued operations
† Includes investments in joint ventures and associates

Our role as system operator

As Great Britain's System Operator (SO) we make sure Great Britain's gas and electricity is transported safely and efficiently from where it is produced to where it is consumed. We seek to ensure that supply and demand are balanced in real-time and we facilitate the connection of assets to the transmission system. In the US, similar services are provided by independent system operators.

US Regulated

Electricity: We both own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island, serving approximately 3.4 million customers. The assets we operate include 14,219 kilometres (8,835 miles) of overhead line, 377 transmission substations and 763 distribution substations.

Gas: We own and operate gas distribution networks across the northeastern US, located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island. Our networks deliver gas to approximately 3.6 million customers.

Other Activities

Our other activities mainly relate to non-regulated businesses and other commercial operations not included within the business segments including: interconnectors; UK-based gas metering activities; UK property management; a UK liquefied natural gas (LNG) importation terminal; US LNG operations; US unregulated transmission pipelines; and corporate activities.

In 2016/17, we announced plans to create National Grid Ventures. With effect from April 2017, we have brought together key assets outside our core regulated businesses into this new unit. See page 28 for further details.

Discontinued operations

Until 31 March 2017, we owned and operated four gas distribution networks comprising approximately 131,000 kilometres (81,400 miles) of pipeline, transporting gas from the NTS to around 10.9 million consumers on behalf of 41 gas shippers. As announced on 31 March 2017, a 61% interest in this business was sold to a consortium of investors. The Consortium comprises Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. National Grid has retained a 39% interest in the business. The figures below reflect performance of the business on a 100% basis for the entire year and include the results of Xoserve Limited (previously reported within other activities).

US Regulated

Adjusted operating profit

£1,713m

2015/16: £1,185m

Statutory operating profit

£1,278m

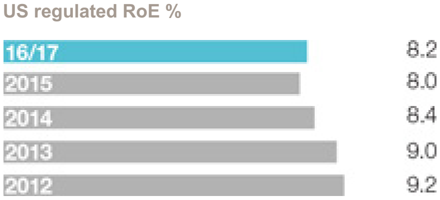
2015/16: £1,196m

Capital investment

£2,247m

2015/16: £1,856m

US regulated RoE %



Other Activities

Adjusted operating profit

£177m

2015/16: £370m

Statutory operating profit

£62m

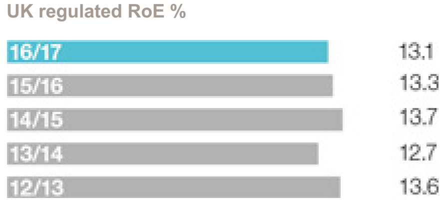
2015/16: £370m

Capital investment

£374m

2015/16: £254m

UK regulated RoE %



Discontinued operations

Adjusted operating profit

£894m

2015/16: £882m

Statutory operating profit

£894m

2015/16: £860m

Capital investment

£588m

2015/16: £566m

Gain on sale

£5,321m

Cash receipts of £5.5bn

Chairman's statement

National Grid is responding positively to wide-reaching developments in our operating environment and taking steps to build a stronger foundation for the future.

"We have a role to play in helping communities have fair and equal access to opportunities to be successful."

In focus

Full-year dividend of

44.27 p/share

Final dividend of 29.10 p/share expected to be paid on 16 August 2017*

Special dividend for payment on 2 June 2017

84.375p

Responsible business
www.nationalgrid.com/responsibility

Our KPIs
pages 10–13

*Subject to shareholder approval of the proposed share consolidation, the final dividend will be paid on post consolidation shareholdings.

Over the past year, we have seen significant developments both in our external environment and within the Company.

In the summer of 2016, the UK voted to leave the European Union (EU), leading to a change in government leadership. More recently, a General Election was announced for 8 June 2017. We have also seen a new administration in the US following the Presidential election. We await developments in its policy positions.

Amid these developments, public trust in big business and political institutions remains low. The cost of energy and the impact of investment in new technology on bills remains a matter of concern for politicians, regulators and consumers. The energy industry needs to work hard to demonstrate affordability and build trust with consumers and communities who feel disconnected from the opportunities that technological and market changes can bring.

In early 2017, the UK Government presented proposals for a UK industrial strategy, including recommendations for developing energy infrastructure, skills and investment in technology and innovation.

has led a review of our business. This has resulted in a clear articulation of our purpose and the evolution of our vision, values and the strategic priorities that guide our business. You can read more about these on page 8.

I am pleased that John has delivered a very strong performance in his first year as Chief Executive. Together with his team, he has made significant progress on our commitments and towards evolving the direction for National Grid.

Nicola Shaw joined the Board on 1 July 2016 as Executive Director, UK, and I am pleased that she has also made a very good start.

Gas Distribution

This year we concluded the sale of a majority interest in our UK Gas Distribution business to a consortium of investors. This has created value for our shareholders through a significant gain on the disposal.

We announced a one-off return of £4 billion of net proceeds to shareholders through a combination of a special dividend and share buy-backs. I am also pleased that we voluntarily set aside £150 million of the sale

The commitment of governments across the world to support the agreement on climate change made at the Paris Conference of the Parties sent a strong signal that we have to tackle the threat of rising temperatures. You can read more about these changes and our responses on page 9.

In light of these changing external circumstances, together with the ongoing evolution of the energy industry and growth in distributed generation, Chief Executive John Pettigrew, together with the Executive team,

proceeds that will be used to benefit consumers.

On 19 April 2017, following Board approval, we announced the special dividend of 84.375 pence per share ($5.4224 per American Depositary Shares) which will be paid to ordinary shareholders on 2 June 2017. To ensure, as far as possible, that the share price is not affected by the special dividend, shareholder approval is sought for a share consolidation on an 11 for 12 basis, which means that for every 12 shares you had, you will have 11 if approved. This and other related resolutions will also be considered at a General Meeting on 19 May 2017. Notice of this meeting was sent to all shareholders.

Results

As a consequence of the sale of a 61% interest in the UK Gas Distribution business, this year's accounts are more complex than in previous years. In particular, we report our earnings for the Group excluding UK Gas Distribution (the 'continuing Group') separately from the results of that business, which we report within 'discontinued operations'. You can find out more about the main aspects of this on pages 112–115.

Standing back from the detail of these accounts, I would like to highlight two aspects. Firstly, the strength of the balance sheet and our key credit metric of retained cash flow divided by adjusted net debt. Secondly, the cash flows in the business, which have enabled us to grow the full-year dividend in line with our policy, and continue to grow the capital investment in the business to help meet our growth aims.

Dividend policy

Our dividend policy aims to grow the ordinary dividend per share at least in line with the rate of UK RPI growth each year for the forseeable future. Accordingly, the Board has recommended an increase in the final dividend to 29.10 pence per ordinary share ($1.8924 per American Depositary Share)*. If approved, this will bring the full-year dividend to 44.27 pence per share ($2.8351 per American Depositary Share), an increase of 2.1% over the 43.34 pence per ordinary share in respect of the financial year ended 31 March 2016.

Responsible business

It is a fundamental fact of our business that the work we do carries risks for our employees, customers and the general public. Operating a safe working environment is the primary responsibility of the Board and our Executive leadership team. It is a responsibility we take very seriously, and when we fall short of expected levels of safety, we make sure lessons are learnt and shared, as well as making sure we take any necessary remedial actions as soon as is practicable.

We also have a responsibility to contribute towards the economic, social and environmental well-being of the communities where we operate. In early 2016, the UN presented their 17 Sustainable Development Goals. At National Grid we are focusing on five of these goals where we can help to make a difference. These include affordable and clean energy, as well as climate action.

For example, we have made significant progress in our search for low-carbon alternatives to SF_6, an electrical insulator that has a global warming impact 23,900 times that of CO_2. We are trialling an alternative (Green Gas for Grid, or g^3) that delivers the same technical benefits at less than 2% of the global warming impact of SF_6. I am pleased to say g^3 has now been certified for use on part of our network and the equipment insulated with this gas is now energised.

National Grid recognises the wider role we can play in helping communities have fair and equal access to opportunities to be successful. We work with community groups, charities and educational institutions to help address some of the challenges felt by the most disadvantaged in our society who can struggle to access decent and sustainable education and employment.

For example, working with Teach First in the UK, our employees coach new teachers as they start their careers in some of the most challenging schools in the country. We share Teach First's aim to end educational inequality, which is one of the main barriers to social mobility.

In the US, we are supporting United Way of Rhode Island's Housing for All Fund. The fund helps people who are making tough choices around which basic needs they can afford. Through this support, we are playing our part in building a stronger community by helping people access more affordable housing. It helps to retain and attract people to the area, supporting the wider economic recovery of the region.

How we manage our operational sites can have a major impact on the environmental well-being of communities. For example, I was pleased to see a project in the UK where our newest graduate recruits worked with site managers and the Yorkshire Wildlife Trust to enhance the environment at our site in Kirkstall, Leeds. The land around our site has been subject to anti-social behaviour and fly-tipping. Our project will see graduate volunteers addressing these issues, building a sensory garden and improving the woodland and ponds so that the local community can access and use the site safely.

Corporate governance

After nearly six years' tenure as a Non-executive Director, Ruth Kelly has decided that due to personal circumstances and time commitments she will not be seeking re-election by shareholders at the next Annual General Meeting. Ruth has made a significant

I was pleased to welcome Pierre Dufour to our Board in February 2017. Pierre's wealth of experience will bring great value to our Board and to the Remuneration and Nominations Committees. Additionally, his strong track record in safety and industrial risk management, and the supervision of complex multinational engineering projects, makes him ideally placed to strengthen the expertise on our Safety, Environment and Health Committee.

The topic of corporate governance has been the subject of considerable political and media attention in the UK during 2016/17. The Financial Reporting Council (FRC) is now undertaking a fundamental review of the UK Corporate Governance Code and we shall be an active participant in its consultation process.

Your Board continues to be very mindful of the need to create value for our shareholders within a framework of high standards of corporate governance, recognition of our responsibilities to the wider group of the Company's stakeholders and setting the right tone from the top.

Looking ahead

We will work closely with our customers and stakeholders to understand the impact of the UK exit from the EU as Brexit negotiations develop.

We believe it is in the interests of consumers to make sure the UK has continued barrier-free access to neighbouring energy markets and to the benefits realised through harmonised trading arrangements with the EU.

Our US business will continue to work with all levels of government to find efficient energy solutions for the communities we work in, and to solve issues facing the energy sector. We remain committed to ensuring a sustainable and clean energy future for all our customers.

The increasing threat from cyber attacks mean we must remain vigilant to the very real risks posed to our critical national infrastructure. We continue to focus on the strategies needed to protect our business, our customers and the communities that rely on our services.

I would like to extend my deepest appreciation to all our employees and the management team for their hard work, dedication and commitment to your Company's success.

contribution throughout her time with the Company and we are sorry to see her go.

Sir Peter Gershon
Chairman

Chief Executive's review

The past year was an important period for National Grid. We completed the sale of a majority interest in our UK Gas Distribution business, made progress with our new rates in the US, and developed our thinking on National Grid's purpose, vision and strategic direction.

"Our purpose, which sets out why National Grid exists, is simple – we bring energy to life."

A period of change

The energy sector is undergoing transformation. It faces greater change and uncertainty than ever before, which brings fresh challenge and new opportunities. As a result, we have spent considerable time over the past year re-evaluating how we will respond to these new challenges. The result is an articulation of our purpose, and evolution of our vision and strategy, which guide everything we do.

Find out more

For more information on the challenges we face see page 9

You can read more about our purpose and how we have evolved our vision and strategy on page 8

I am proud of what we have achieved during 2016/17. We have continued being innovative and efficient to deliver savings for customers, while taking steps across the Group to evolve by investing in newer technologies. These developments come at a time when there have been considerable changes in our operating environment, as described on page 9.

This is why our leadership team has conducted a strategic review of our business to articulate our purpose and evolve our vision and strategy. I am excited by the evolution of our strategy, which we are setting out in this report.

Our performance in 2016/17

In terms of safety, our overall lost time injury frequency rate for the Group was 0.08, which is considered to be world class. This figure, which includes our contractors and excludes the UK Gas Distribution business, is slightly different to our KPI for the Group's employee injury frequency rate. You can read about this on page 10.

However, we were all reminded of the importance of safety this year, following a tragic

In both the UK and US, we continued to achieve close to 100% reliability across our networks.

At National Grid, we are very aware of the need to put our customers at the heart of how we run our business. In all of our business areas, both in the UK and in the US, we have exceeded our customer satisfaction targets, which I believe is testament to the continuous efforts we have made on improving the services we provide.

Finally, through the strong operational performance and growth in our assets, we support our growing dividend. We measure our performance through our Group Return on Equity (RoE), which remained strong at 11.7% this year and Value Added, which increased to £1.9 billion this year, equivalent to 51.6 pence/share.

Developments in our business

In 2016/17, we have made progress in our business in a number of important areas.

The sale of a majority interest in our UK Gas Distribution business marks an important incident in which one of our UK employees lost his life. We take safety very seriously at National Grid – it remains a fundamental priority – and we will do everything we can to learn from incidents, so we can continually improve our performance.

Both our UK and US businesses remain committed to achieving the highest possible standards for safe working.

We invested £4.5 billion of capital this year in our businesses, a record level for the Group, driving growth of 5% in our total asset base.

milestone for National Grid. We worked closely with the purchasing Consortium to ensure a smooth transition for our customers and employees so that services continue to be delivered safely and efficiently. The sale puts our portfolio in a strong position to support higher growth and to continue delivering an attractive dividend while maintaining a healthy balance sheet.

We have retained a 39% interest in the new Gas Distribution business, and have entered into an option agreement with the Consortium for the potential future sale and purchase of an additional 14% interest. This would be on broadly similar terms to the sale of the 61% equity interest.

During 2016/17, we made progress with our rate cases in the US, securing agreements in Massachusetts, New York City and Long Island. The New York agreements include provision to phase the impact on consumer bills over time to help manage the increase in costs.

Our ability to make new investments in our US networks means we can continue our work to ensure a clean, sustainable energy supply for our customers. In December, we began the transmission of electricity to Rhode Island from the Block Island wind farm, the first offshore wind generation in the US. You can read more about our US investments on pages 26–27.

In the UK, Ofgem concluded its mid-period review of the RIIO price control for Gas and Electricity Transmission, giving us certainty over our core revenues for the remaining RIIO period.

Also this year, we issued a joint statement with BEIS and Ofgem about the enhanced role and greater separation of the Electricity System Operator (ESO) function. While the proposals are subject to consultation, we support the principle of greater separation of the ESO role within National Grid. We believe it is the most effective way to balance the interests of consumers with the need to maintain security of supply in a fair and competitive energy market. We look forward to working with the regulator and our stakeholders to deliver the best possible outcome for UK consumers.

The outcome of the UK referendum on EU membership has challenged all businesses to consider the impact Brexit will have on their operations. We continue to work positively with both UK and EU legislators to maintain access to cross-border services so we are able to ensure the UK's security of supply and the interests of energy consumers.

We welcome the opportunity the UK Government's Green Paper 'Building our Industrial Strategy' provides to contribute to the industrial development of the UK. We believe secure, low-carbon and affordable energy underpins the success of all the UK's industries. We welcome the commitment to investing in the skills and education needed to encourage future innovation in energy systems.

We have brought together our Other Activities, which mainly comprise businesses that are adjacent to our core regulated operations, to create a new division with its own leadership. It our commercial and partnership capabilities for the future. A recent example of this is our partnership with US solar supplier Sunrun, which we announced in January. I would like to welcome Badar Khan to my leadership team as Group Director, Corporate Development and National Grid Ventures.

You can read more about the developments in our UK, US and other businesses on pages 24 –29.

Our purpose, vision and strategy

Throughout this year's Annual Report and Accounts, we describe our performance for 2016/17 against our current strategy. However, as Sir Peter has described, there is much change taking place in our operating environment.

The shift to a low-carbon economy is gathering pace in both the UK and US. Globally, investment in coal-powered generation is falling and renewables have now overtaken coal as the world's largest source of installed power capacity. This year, for the first time, we saw periods where no coal-fired power stations generated electricity in the UK. In the US, investment in solar, battery storage and energy efficiency continues apace.

With such change happening all around us, we cannot stand still. That's why we have developed our thinking on National Grid's purpose, vision and strategic direction.

Our purpose, which sets out why we exist, and what we bring to our customers and wider society, is simple: we bring energy to life. This means getting the heat, light and power that customers rely on to their homes and businesses; and supporting the communities that we are a part of.

Our vision is to exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow. How we perform individually, and as an organisation, is guided by this single ambition.

So, what does this all mean for our strategy? Our strategic focus is predicated on our customers. As a responsible, purpose-led organisation, we must put into sharper focus the customers to whom we deliver – their needs and priorities must come first. And by making decisions that consider our customers' interests, we will be able to deliver sustainable performance over the long term. Therefore, we are focused on three specific areas.

Firstly, we are finding new ways of optimising our operational performance, so we can maximise value from our businesses. And as Secondly, we are seeking opportunities to drive asset growth by investing in our core regulated assets where we see strong potential. This investment is needed to deliver asset health, network expansion and modernisation. We expect the current levels of spend to continue over the medium term.

And thirdly, we are making further changes to make sure National Grid is better equipped for the future. As I described earlier, we have created National Grid Ventures, which will focus on developing new growth opportunities and strengthening our commercial and partnership capabilities for the future.

You can read more about our purpose, vision and strategy on page 8.

Our people

Our performance is dependent on the commitment and achievements of our people. As Chief Executive, it's been a privilege to meet many of our employees across the organisation and see how they deliver for their customers, their communities and each other.

That's why I am pleased to report that our annual employee engagement score has risen to 77% from 73%.

If we are to achieve the strategic objectives I have described, it's important that we continue to make sure our employees have the right skills and capabilities to lead us through this period of change.

Over the past year, we've delivered an average of 6.5 days of technical, safety, leadership or professional effectiveness training per employee in the UK and US. You can read more about this on pages 30 – 31.

Looking ahead

Our focus will remain on driving the performance of the business to deliver strong Group returns and increasing Value Added.

To achieve this, our UK and US regulated businesses will continue looking for ways to optimise performance. In 2017/18, we will look to achieve good outcomes for our US rate filings. In the UK, we'll begin the process of preparing for RIIO-T2. The performance of our regulated businesses will be underpinned by continued investment, so we can make sure we deliver a safe, reliable and affordable service for our customers. Our newly formed National Grid Ventures will look for opportunities adjacent to our core business to support its growth.

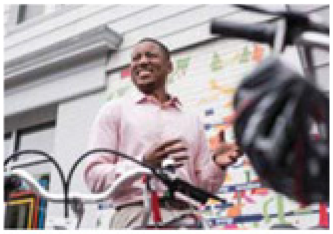
will be called National Grid Ventures and its objectives are to focus on the development of new growth opportunities and strengthening

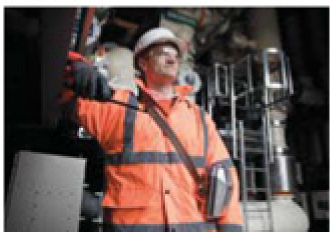
we improve performance, it increases our efficiency and ultimately benefits the customer by improving affordability.

John Pettigrew
Chief Executive.

Our purpose, vision, strategy and values

We describe on page 9 how the operating environment for our industry is changing. To make sure National Grid is well positioned to respond to these changes, we have evolved our purpose, vision, strategy and values.





Our vision

“We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.”

Our purpose

Having a clear sense of what we stand for as a company and what it is that binds us all together is vitally important. This is what we call our purpose. In simple terms it’s what drives our desire to serve our customers and it’s that thing that makes us proud about the work we do.

Our purpose is to bring energy to life.
In its simplest form ‘bring energy to life’ means getting the heat, light and power that customers rely on to their homes and businesses. But ‘life’ also means supporting the communities that we are a part of and live amongst to support the economic growth and sustainability of wider society.

Our vision

Our vision describes how we create value – not just today, but in the future too.

Our vision is: “We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.”

The needs of our customers, shareholders and communities are at the heart of everything we do. So, our vision statement clearly describes the ambitious challenge we have set ourselves – to make sure we deliver value for them every day.

Our vision also looks to the future, reminding us of the critical role we will play for future generations. We are already seeing changes in our energy system as more renewable and decentralised generation is introduced. To be relevant in this future, we have to play an active role in helping shape the energy landscape, and benefiting from what it provides.

Our strategy

We have three strategic priorities for our business that will help us achieve our vision.

1) Find new ways of optimising our operational performance
Our customers want and need us to be more efficient, so we must find ways to improve how we run our business. We have looked at enhancing our productivity and customer experience through more efficient and customer-focused processes. Given the scale of our core business in the UK and US, even small improvements will have a huge impact on our overall performance. Finding new ways of optimising our operational performance will be

2) Look for opportunities to grow our core business
Delivering strong operational performance provides us with a foundation to pursue other opportunities. We will continue to pursue business development opportunities that are close to our core business. In the US, we will build on our successful efforts over the past two years to pursue opportunities in electricity and gas transmission. In the UK, interconnectors and competitive onshore transmission projects will be our focus over the next decade.

3) Make sure National Grid is better equipped for the future
We need to future-proof our business against the effects of a changing energy landscape. The operation of our networks is already affected by changes to the generation mix, while the needs and expectations of our customers are evolving.

Our preparations for the future have already begun in the UK and US with the establishment of National Grid Ventures, which brings together our non-network businesses to focus on targeted investment in the energy sector outside of our core business. We are also looking to develop new capabilities that are essential for long-term success.

For example, our partnership with Sunrun, the largest dedicated residential solar company in the US, allows us to increase our capability in the distributed energy space, and enhance our ability to meet the changing energy needs of our customers and communities.

Our values

We know that how we deliver is as important as what we deliver. If our purpose is the ‘why’, our values are the ‘how’. They help shape our spirit, attitude and what guides us. We have to adapt and develop our values to align with the expectations of our customers and communities, without losing sight of the things that make us strong today.

Our values build on and protect our strong foundations while looking to the future. They are aligned to our purpose and help our people understand how we expect to achieve our purpose and vision for our customers and each other.

Every day we **do the right thing** and **find a better way**.

‘Do the right thing’ pulls together our foundational values – keeping each other and an important factor in our ability to compete and grow. It creates the financial capacity and the capability for us to future-proof our business.

the public safe; complying with all the relevant rules, regulations and policies; respecting our colleagues, customers and communities; and saying what we think and challenging constructively. ‘Find a better way’ challenges us to focus on performance and continuous improvement for our customers, our shareholders and communities.

Our operating environment

Our operating environment is shaped by the regulatory choices governments make to respond to the changing needs of energy consumers. In meeting these demands, regulators seek to balance often conflicting objectives. In the last year we have seen a shift in focus to affordability and moving to a low carbon economy.

	Affordability	Security of supply	Sustainability
Commentary	The cost of the energy is an issue for consumers, industry, energy providers, regulators and governments. Consumers expect a reliable energy system that delivers gas and electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the network costs part of their energy bills. The costs are subject to regulatory approval.	The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas, as well as emerging battery storage. During the transition, electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.	Our world is changing as a result of human activity and its impact on the environment. The Paris Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – delivering value for people, the environment and business. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems.
Developments	In the UK, the Government set out proposals for an industrial strategy that confirms the high priority placed on affordability of energy. Ofgem proposed a number of adjustments to allowances for UK Gas and Electricity Transmission following its mid-period review of the RIIO-T1 price control. In the US, the cost of energy remains a concern for consumers and regulators who expect affordable, reliable and cleaner energy while keeping costs low. As new technologies, such as solar, are adopted, there are fears that low-income customers may not have access to cheaper, cleaner sources of energy.	Energy security remains a priority for the UK Government, and a number of balancing tools are available to manage capacity. BEIS introduced amendments to the UK capacity market to improve long-term planning of capacity and reduce costs to consumers. The UK Government has also committed to proceed with the Hinkley Point C nuclear power station. In the US, the reliability of energy infrastructure remains a concern for consumers, regulators and policy makers. Regulators are seeking investment to improve the security and resilience of energy networks.	In December 2015, the Paris Agreement entered into force, and as at 17 May 2017 has been ratified by 146 national governments. The Agreement requires signatories to commit to reducing global greenhouse gas emissions with the aim of limiting increases in global average temperature. Investment in solar generation has continued in both the UK and US. The first offshore wind project in the US went operational off the coast of Rhode Island. This year, for the first time, we saw periods where no coal-fired power stations generated electricity in the UK. The UK BEIS green paper on industrial strategy included a focus on developing education and skills for energy innovation. In the US, state regulators continue to support energy innovation projects through programmes such as New York State's 'Reforming the Energy Vision'.

Our response

Our US and UK regulated businesses continue to strive for greater efficiency to help offset the impact of costs for energy and capital investment programmes. We continue to find innovative ways to reduce both the time and cost to repair or replace assets, minimising the costs to consumers.

In the US, the rate case outcomes for New York included plans to phase increases over three years to mitigate the impact on consumer bills. We also provide low-income assistance to more than 118,000 households in upstate New York annually, with programmes and experts dedicated to delivering solutions for those struggling to pay their energy bills.

In the UK, we have been able to generate £460 million of savings for consumers in the first four years of the RIIO arrangements and additionally we voluntarily set aside £150 million of the proceeds from the sale of a majority interest in our UK Gas Distribution business that will be used to benefit consumers. We are expecting around £200 million of cost savings for consumers resulting from awarding Enhanced Frequency Response contracts for more than 200 MW of battery storage in July 2016.

We continue to support BEIS and Ofgem on capacity market policy development and applicant readiness. We also continue to work with our delivery partners to achieve operational milestones. National Grid was asked to play an important role in Electricity Market Reform and act as the Delivery Body administering new market arrangements – the Capacity Mechanism and Contracts for Difference – which provide incentives for the investment required in our energy infrastructure.

In the US, recent rate case decisions in New York State and Massachusetts have approved increased capital investment programmes to improve electricity and gas infrastructure. We have also extended our grid modernisation pilot in Worcester.

Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 12).

In the UK, we are working with customers and stakeholders to gather insights on the future role of gas in managing the transition to a low-carbon future. We continue to work with BEIS and Ofgem on the development of future energy systems as we respond to the shift to low-carbon energy in the UK.

In the US, we support the Clean Power Plan. We continue to invest in new gas and electricity infrastructure that will further decarbonise generation, removing the use of coal and oil while increasing the use of renewables. We own 21 MW of solar generation and plan to add 14 MW more.

In January 2017, we formed a partnership with Sunrun, the largest dedicated provider of residential solar systems in the US. The partnership includes a residential solar co-marketing pilot already in progress in our service area on Staten Island, targeting roughly 100,000 homeowners.

Progress against our current strategy

We first set out our current strategy in our 2012/13 Annual Report and have continued to report on our progress against it since then. As we describe on page 9, there is an extraordinary amount of change facing our industry, so we have articulated our purpose, and evolved our vision and strategy (see page 8).

Our strategic objectives

We aim to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors. We measure our progress in creating value for our investors.

All data in this section includes UK Gas Distribution unless otherwise stated.

Our strategic objectives

Deliver operational excellence

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

Engage our people

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

Stimulate innovation

Promote new ideas to work more efficiently and effectively.

Engage externally

Work with external stakeholders to shape UK, EU and US energy policy.

Embed sustainability

Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.

Drive growth

Grow our core businesses and develop future new business opportunities.

Deliver operational excellence

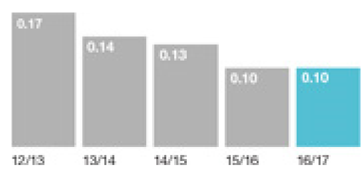
Achieve world-class levels of safety, reliability, security and customer service.

Our customers, communities and other stakeholders demand safe, secure and reliable 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.

How we assess progress:

Employee lost time injury frequency rate
This is the number of employee lost time injuries per 100,000 hours worked in a 12-month period (including fatalities). Our ambition is to achieve a world-class safety performance of below 0.1.

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



Our overall lost time injury frequency rate for the Company has remained at 0.10 which is an historic low level for the Company.

Customer satisfaction
The table below summarises how we measure customer satisfaction and also shows our targets for each business area.

	Methodology	Measure
UK	RIIO-related metrics agreed with Ofgem	Score from surveys
US	Customer Trust Advice metric	Score from survey

	16/17	15/16	Target
UK Electricity Transmission	7.4	7.5	6.9[1]
UK Gas Transmission	8.0	7.6	6.9[1]
UK Gas Distribution	–[2]	8.4	8.3[1]
US – Residential[3]	60.7%	56.5%	57.4%

1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO. The maximum score we can receive is 10.
2. Our customer satisfaction results are reported on an annual basis with the results being published later this year.
3. Our customer satisfaction methodology has changed from using the JD Power survey measure to the Customer Trust Advice survey metric. The new survey specifically focuses on the services we provide for our customers and better represents their views of us.

Our customer satisfaction KPI comprises four components: Ofgem's UK electricity and gas transmission and distribution customer satisfaction scores, and the US residential Customer Trust Advice survey metric. The US metric has been in place for two years and measures customers' sentiment and overall satisfaction with National Grid by asking their level of trust in our advice to make good energy decisions.

In all of our key business areas, both in the US and in the UK, we have exceeded our customer satisfaction targets. You can find out more about our work on behalf of customers on pages 24–27.

Network reliability
Network reliability is measured separately for each of our business areas. The table below provides a simple visual representation of our performance across all of our networks. Our targets are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.

Network reliability

		Target or base %	16/17	Performance against target
UK Electricity Transmission	**T**	99.9999	99.999964	exceeded
UK Gas Transmission	**T**	100	99.97500	not achieved
UK Gas Distribution	**T**	99.999	99.998	not achieved
US Electricity Transmission	**B**	99.9	99.97	no target
US Electricity Distribution	**B**	99.9	99.994	no target

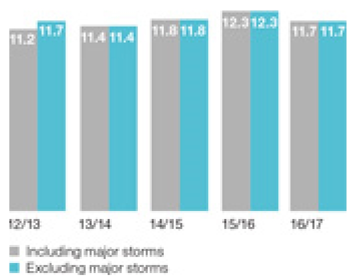
Key:
T – Target
B – No target set or set individually by each jurisdiction. Accordingly, we set a base and report performance above the base.

We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans. We have not met our targets for UK Gas Transmission and Distribution. UK Gas Transmission missed its target as there was cessation to the flow at two supply points on the NTS on a small number of occasions. UK Gas Distribution had two incidents in the East of England network. One of these affected around 6,000 customers and was caused by third-party damage to our assets. The other affected around 2,500 customers.

You can find more information about our UK principal operations on pages 24–25, and our US principal operations on pages 26–27.

Group return on equity (RoE)
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.

Group RoE %



Group RoE has decreased during the year to 11.7%, from 12.3% in 2015/16. During the year, the UK regulated businesses (including UK Gas Distribution) delivered a solid operational return of 13.1% in aggregate (2015/16: 13.3%), including an assumption of 3% long run average RPI inflation. The US operational return of 8.2% (fiscal year) was up on last year's 8.0% (calculated on a calendar year basis), reflecting increased revenues from new rate plans in MECO, KEDNY and KEDLI.

A target for Group RoE is included in the incentive mechanisms for executive remuneration within both the Annual Performance Plan (APP) and the Long Term Performance Plan (LTPP). You can find more information about our Directors' remuneration on pages 54-71.

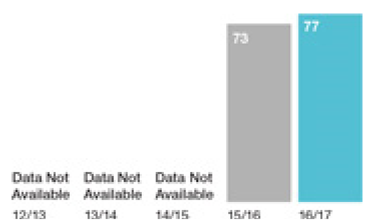
Engage our people

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.

How we assess progress:
Employee engagement index
This is a measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee engagement survey. Our target is to increase engagement compared with the previous year.

Employee engagement index %



We measure employee engagement through our employee engagement survey. The results of our 2016/17 survey, which was completed by 90% 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 4 points to 77% favourable.

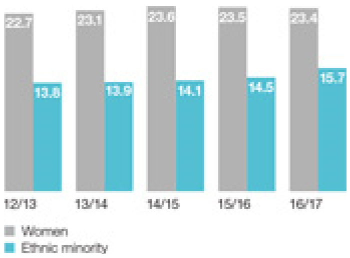
The above engagement data for 2015/16 and 2016/17 excludes our UK Gas Distribution employees because they did not take part in the 2016/17 survey due to the sales process.

The employee engagement figures including UK Gas Distribution for 2012 to 2015 were as follows: 63% for 2012/13, 71% for 2013/14, and 75% for 2014/15.

Progress against our current strategy continued

Workforce diversity
We measure the percentage of women and ethnic minorities in our workforce. While we have no specific target we aim to develop and operate a business that has an inclusive and diverse culture.

Workforce diversity %



We continue to closely track the demographics of our employee population in terms of gender and ethnicity. You can find out more about how we promote an inclusive and diverse workforce on page 30. The above data includes UK Gas Distribution employees. If they were excluded, the figures for 2016/17 would be 24.1% and 17.3% for women and ethnic minorities respectively.

Stimulate innovation

Promote new ideas to work more efficiently and effectively.

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.

You can read more about how we have innovated during 2016/17 in our principal operations sections on pages 24–29.

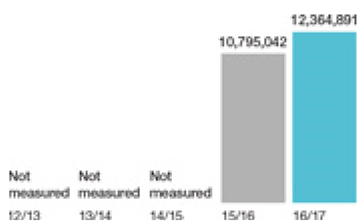
Engage externally

Work with external stakeholders to shape UK, EU and US energy policy.

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 customers and stakeholders.

Community engagement and investment in education
Working with our communities is important in creating shared value for us as a business and the people we serve. We use the London Benchmarking Group measurement framework to provide an overall community investment figure which includes education (but excludes investment in university research projects). While we have no specific target, our overall aim is to make sure we are creating shared value for the communities that we serve and work in.

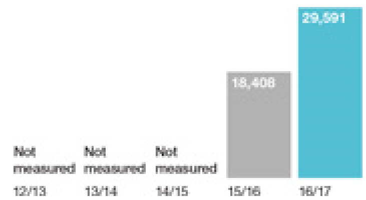
Community engagement and investment in education £



In the UK, our community engagement and investment in education is £5,850,965 for 2016/17. In the US it is £6,513,926. This is a financial measurement of a number of activities, including the time our employees give through volunteering, the money our employees raise through fundraising and also the support we give to our charity partners. Overall our Company-wide investment is £12,364,891.

Skills and capabilities
We support developing the skills and capabilities of young people through skills-sharing employee volunteering, especially in the science, technology, engineering and mathematics (STEM) subjects, because it

Skills and capabilities
Interactions



We measure quality (>1 hour) interactions with young people on STEM subjects. In the UK, in 2016/17, we have had 6,596 interactions with young people on STEM subjects, and 22,995 interactions in the US. Overall we have seen an increase of 11,183 interactions with young people on STEM.

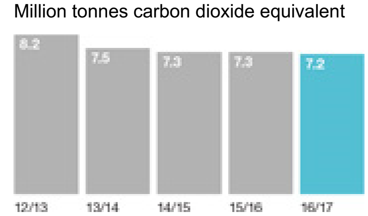
Embed sustainability

Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.

Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation.

Climate change
A measure of our reduction of 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.

Greenhouse gas emissions
Million tonnes carbon dioxide equivalent



Our Scope 1 greenhouse gas emissions for 2016/17 equate to 6.9 million tonnes of carbon dioxide equivalent (2015/16: 7 million tonnes) and our Scope 2 emissions (excluding electricity line losses) equate to 0.3 million supports our future talent recruitment and our desire to see young people gain meaningful employment. While we have no specific target, our aim is to encourage young people to get involved in STEM subjects.

tonnes (2015/16: 0.3 million tonnes); combined this is a 63% reduction against our 1990 baseline. These are equivalent to an intensity of around 424 tonnes per £million of revenue (2015/16: 496). Our Scope 2 emissions from electricity line losses equate to 3.1 million tonnes (2015/16: 3.4 million tonnes).

Our Scope 3 emissions for 2016/17 were 34 million tonnes (2015/16: 35.6 million tonnes). We measure and report in accordance with the World Resources Institute and World Business Council on Sustainable Development Greenhouse Gas Protocol. 100% of our Scope 1 and 2 emissions and 92% of our Scope 3 emissions are independently assured against ISO 14064-3 Greenhouse Gas assurance protocol. This statement, along with more information about our wider sustainability activities and performance can be found in the ‘responsible business’ section of our website www.nationalgrid.com.

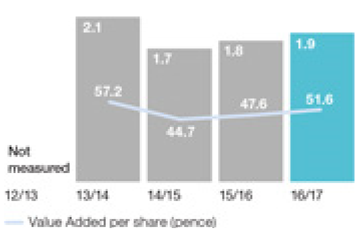
Drive growth

Grow our core businesses and develop future new business options.

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.

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

Value Added £bn



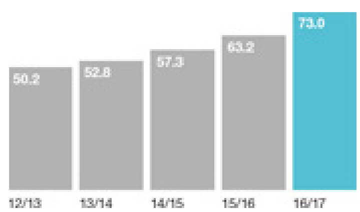
While we have no specific target, our overall aim is to grow Value Added sustainably over the long term while maintaining performance of our other financial KPIs.

Value Added in the year of £1.9 billion or 51.6 pence per share was higher than 2015/16 (£1.8 billion or 47.6 pence per share) primarily as a result of higher inflation on UK regulated assets (March 2017 RPI of 3.1%, prior year 1.6%) and improved US performance. Of the £1.9 billion Value Added in 2016/17, £1,463 million was paid to shareholders as cash dividends and £189 million as share

A target for Value Growth, a derivative of Value Added, is included in the incentive mechanisms for executive remuneration within the LTPP. You can find more information about our Directors’ Remuneration Report on pages 54-71.

Adjusted EPS
Adjusted earnings represents profit for the year attributable to equity shareholders. This excludes exceptional items and remeasurements (see page 195). Adjusted EPS provides a measure of shareholder return that is comparable over time.

Total Adjusted EPS pence



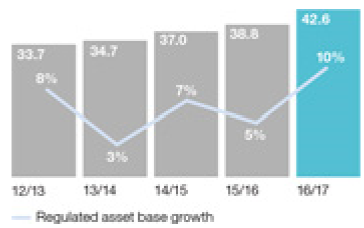
Comparatives have been restated to reflect the impact of additional shares issued as scrip dividends.

For the year ended 31 March 2017, total adjusted EPS increased by 9.8 pence to 73.0 pence reflecting increased regulated revenues in the UK and US, including a significant benefit from timing, the benefit of foreign exchange rates, reduced depreciation in the UK Gas Distribution business and a lower effective tax rate, partly offset by increased financing costs.

A target for adjusted EPS is included in the incentive mechanisms for executive remuneration within the APP. You can find more information about our Directors’ Remuneration Report on pages 54-71.

Regulated asset base 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. While we have no specific target, our overall aim is to achieve between 5% and 7% of regulated asset base growth each year.

Total regulated asset base and regulated asset base growth £bn



In total, including all of the regulated asset value (RAV) of UK Gas Distribution, our UK RAV and US rate base increased by £3.8 billion (10%) in the year to £42.6 billion. The increase 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. Following the sale of a 61% interest in the UK Gas Distribution business on 31 March 2017 the Group’s total RAV and rate base decreased to £37.1 billion (including a 39% share of the RAV of the disposed UK Gas Distribution business).

repurchases (offsetting the scrip issuance during the year), with £289 million retained in the business.

Our business model

How we generate long-term value

Our business

Our transmission and distribution businesses in the UK and US operate as regulated monopolies. During 2016/17, they generated 96% (2015/16: 91%) of Group adjusted operating profit. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on and the standards of performance we must achieve.

In the UK, we have one regulator, Ofgem, which regulates our electricity and gas businesses. As System Operator we make sure that supply and demand are balanced in real time and we facilitate the connection of assets to the transmission system. In the US, our retail activities are regulated by state utility commissions (in New York, Massachusetts and Rhode Island) and by the Federal Energy Regulatory Commission (FERC) for wholesale activities, including interstate transmission and wholesale electricity generation.

The foundations of our business model

Our people and our culture

Our business is built by our people. We work hard to make sure that we keep them as safe as possible. At the end of 2016/17, after the sale of a majority interest in our UK Gas Distribution business and the transfer of its employees to the Consortium, we had more than 6,000 people working in the UK and nearly 16,000 in the US.

Being a responsible business

Doing the right thing is a responsibility we take seriously. Being a responsible and sustainable business is fundamental to the way we work and how we manage our impact on the communities in which we operate.

Our relationships with stakeholders and regulators

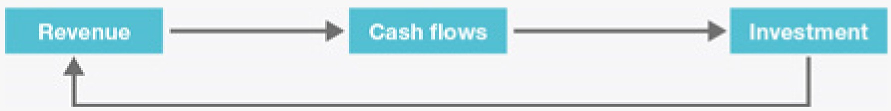
We engage widely in debate that helps guide future energy policy direction. We work with our regulators to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

Our customer focus

Our customers' wants and needs are evolving with a greater desire to manage their energy use and

How we generate value

We are a long-term asset-backed business. The diagram below illustrates how our regulated businesses create value, over time in the UK and US.



Revenue: The vast majority of our revenues are set in accordance with our regulatory agreements, (see pages 174–179) and are calculated based on a number of factors: investment in network assets; performance against incentives; allowed returns on equity and cost of debt; and customer satisfaction.

Cash flows: Our ability to convert revenue to profit and cash is important. By managing our operations efficiently, safely and for the long term, we are able to generate strong sustainable cash flows to finance returns through dividends but also to provide funds for growth.

Investment: We invest efficiently in our networks to deliver strong and sustainable growth in our regulated asset base over the long term.

We continually assess, monitor and challenge investment decisions in order to allow us to continue to deliver safe, reliable, and cost-effective networks.

Our stakeholders	Our measures of success
Our business creates value for our stakeholders in both financial and non-financial terms.	Our KPIs benchmark our performance in each of these key areas as shown below.
We create value for our stakeholders and communities by: • operating as safely, reliably and sustainably as possible; • focusing on affordability to reduce the impact on customer bills; • delivering essential services, while managing loss of supply and customer service issues in a timely way; and • aiming to improve customer satisfaction at all times.	• Operating excellence/safety • Network reliability • Greenhouse gas emissions • Customer satisfaction
We create value for our people by: • paying them a market competitive wage, and an overall pay package that rewards competency and performance; and • providing an inclusive culture and encouraging development and employee enablement.	• Employee engagement • Workforce diversity
We create value for our shareholders by:	

expectations of how we interact with them. To remain relevant to our customers, we must understand and respond to their changing requirements and deliver outstanding experiences, products and services.

Innovation
Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks.

Our financial capital and fixed asset base
The way in which our investment is funded is an important part of our business. As a UK business with a secondary ADS listing in New York, long-term sustainable assets and strong credit ratings, we are able to secure efficient funding from a variety of sources.

- making sure our regulatory frameworks maintain an acceptable balance between risk and return;
- operating within our regulatory frameworks as efficiently and compliantly as possible;
- performing well against our regulatory incentives, so we can make the most of our allowed returns;
- careful cash flow management and securing low-cost funding; and
- disciplined investment in our networks and protecting our reputation.

- Adjusted EPS
- Returns on equity
- Value added

Internal control and risk management

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

Managing our risks

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

The Board oversees the Company's risk management and internal control systems. As part of this role, the Board sets and monitors the amount of risk the Company is prepared to seek or accept in pursuing our strategic objectives (our risk appetite). The Board assesses the Company's principal risks and monitors the risk management process through risk review and challenge sessions twice a year. Over the course of the year, the Board has also considered specific principal risks including cyber security, emerging technology, the future role of the System Operator, asset safety, Brexit and strategic workforce planning.

Risk management process

Overall risk strategy, policy and process are set at the Group level with implementation owned by the business. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks, as shown in the diagram below. The process is designed to support the delivery of our vision and strategy, as described on page 8.

Risk management activities occur through all levels of our organisation. Through a 'top down, bottom up' approach, all business functions identify the main risks to our business model and to achieving their business objectives. They assess each risk by considering the financial and reputational impacts, and how likely the risk is to materialise. They identify and implement the actions being taken to manage and monitor those risks and indicate the adequacy of our existing risk controls. The identified risks and actions are collated in risk registers and reported at functional and regional levels of the Group.

An important feature of our risk management process is our three lines of defence model. Each business function owns and is responsible for managing its own particular risks (the first line of defence). A central risk management team (the second line of defence) acts as an advisory function on implementing the risk process and also provides independent challenge of the principal risk assessments and actions taken to mitigate and manage those risks. This team partners with the business functions through nominated risk liaison staff members and collaborates with assurance teams and specialists, such as the safety and compliance management teams to evaluate gaps in controls, identify performance trends and provide recommendations for improvements. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

Regional senior management regularly reviews and debates the outputs of the bottom-up risk management process. This helps ensure the business is aligned to the Company's strategic objectives and that the prioritisation of the principal risks is discussed regularly. The most significant risks for the UK and US businesses are highlighted in regional risk profiles and reported to the Chief Executive.

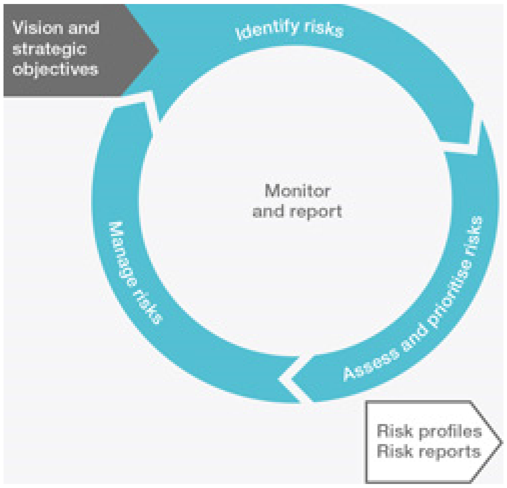
We develop our main strategic uncertainties or 'principal risks' for the Company through discussing the Group risk profile with the Group Executive Committee and the Board. These risks are reported and debated with the Group Executive Committee and Board every six months. Workshops are held with UK and US business leadership teams so we can make sure the principal risks remain closely aligned to our strategic aims and that no significant risks (or combination of risks) are overlooked.

The Board and leadership teams also discuss the results of testing our principal risks. The aim of this testing is to establish the impact of the principal risks on the Group's ability to continue operating and meet its liabilities over the assessment period. We test the impact of these risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. This work informs the viability statement (see page 19).

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

Risk management process

Feedback and reporting


Vision and strategic objectives
Identify risks
Assess and prioritise risks
Manage risks
Monitor and report
Risk profiles
Risk reports


National Grid Board
Executive Committee
Audit Committee
Regional Executive Directors
Corporate Risk team
Business functions
Top-down feedback
Bottom-up reporting

Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives. This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. Our principal risks and a summary of management and mitigation actions are provided in the table below. We have provided the overview of the key inherent risks we face on pages 180–183, as well as our key financial risks, which are incorporated within the notes to our consolidated financial statements on pages 92–165. Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives. Following the referendum vote for the UK to leave the EU and the consequential uncertainties in the political and economic environment, the Financial Reporting Council (FRC) has highlighted matters for boards to consider. In relation to principal risks, the FRC states that boards must consider the nature and extent of risks and uncertainties arising from the result of the referendum and the impact on the future performance and position of the business. Consequently, our risk owners have considered Brexit in their assessments of the principal risks. These assessments continue as we gain more clarity on the likely impact of Brexit on our business. Our principal risks are shown in the table below.

Risk area	Risk description	Example of mitigations
Growth	**Failure to identify and execute the right opportunities to deliver our growth strategy.** Failure to grow our core business and have viable options for new business over the longer term would adversely affect the Group's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	● Processes and resources are in place to review, undertake due diligence and progress new investment opportunities, dispose of existing businesses and identify and execute on opportunities that provide organic growth. These processes, along with twice-yearly Board strategy offsite discussions, are reviewed regularly to ensure they remain supportive of our short- and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, and the performance of our Group portfolio. ● While good progress has been made this past year, we must remain focused on increasing development opportunities in our core business and emerging opportunities. Mitigating actions focus on building our business development pipeline and our capability to pursue non-organic growth options.
Energy policy	**Failure to secure satisfactory regulatory outcomes and to influence future energy policy.** Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	● In both the UK and US we strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. ● As part of our new business strategy, we have renewed our stakeholder engagement strategy to improve focus on business objectives. The new strategy incorporates senior executive ownership of each priority, and the development of key positions and engagement plans by cross-functional teams.
Emerging technology	**Failure to effectively respond to the threats and opportunities presented by emerging technologies, particularly adapting our networks to meet the challenge of increasing distributed energy sources.** Technology developments in areas such as solar energy, energy storage, electric vehicles and distributed generation have developed at a faster pace than many anticipated. We face the challenge of adapting our networks to meet new demands as well as ensuring we act on the opportunities that will benefit our customers and stakeholders.	● We created a technology team within our Strategy function to develop relationships with emerging and technology-centric organisations, to monitor disruptive technology and business model trends and to act as a bridge for emerging technology into the core regulated businesses and business development teams. In addition, the partnership with Energy Impact Partners was established to gain exposure to emerging start-up companies. The new National Grid Ventures function will further the focus on new strategies, business development and technology and innovation.

Safety	**Catastrophic asset failure resulting in a significant safety event.** Safety is a fundamental priority. Some of the assets owned and operated by National Grid are inherently hazardous and process safety incidents, while extremely unlikely, can occur. Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with regional legislation and regulation. In addition, we identify and adopt good practices for safety management.	● We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. Our Group-wide process safety management system is in place to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. ● We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks. Periodically, independent surveys of key assets are undertaken, which provide risk engineering knowledge and best practices to the Group with the aim of further reducing our exposure to hazard risks.

Risk area	Risk description	Example of mitigations
Data management	**Failure to operate with a sufficiently mature business data management capability.** The need for accurate, timely, and meaningful data lies throughout the organisation and is critical to our core processes and our ability to grow the business. We must rely upon the performance of our systems and data to demonstrate the value of our business to our shareholders, meet our obligations under our regulatory agreements and comply with agreements with bond holders and other providers of finance.	• We have developed data management principles and minimum standards with supporting guidelines. These documents provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant. • These standards have been launched in the business and will be developed in the coming year. In support of this, we are also developing a capability framework, to make sure our people have the appropriate skills and expertise in data management. The businesses will continue to develop their own implementation plans against these new standards and capabilities. The aim of these plans will be to ensure we can demonstrate we are compliant with the minimum standards and have the core capabilities in place for all of our business critical data. • To support these efforts, we are establishing regional centres of excellence for data management. Their role will be to provide expertise to the businesses and to help provide assurance around the effectiveness of the data management standards.
Cyber breach	**We experience a major cyber security breach of business and critical national infrastructure (CNI) systems.** Due to the nature of our business we recognise that our CNI systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	• We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the Company's business resilience. • We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with BEIS and the Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework. We also collaborate with a number of regulatory agencies focused on protection of CNI.
Leadership capacity	**Failure to build skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy.** It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	• Strategic workforce planning allows us to effectively inform our strategic resourcing plans. Our entry level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required. Improvements to our talent processes mean we continue to improve in identifying talent and in accelerating development of future leaders (e.g. our Accelerated Development Programme). • The rigour of our succession planning and development planning process has been improved, particularly at senior levels and is now being applied deeper into the organisation. • In all strategies and programmes we continue to promote inclusion and diversity. • To help understand our workforce, we formally solicit employee opinions via a Group-wide employee survey that is conducted annually.

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees as outlined in the Corporate Governance section on pages 32–52.

Monitoring internal control is conducted through established boards and committees at different levels of the organisation. Deficiencies are reported and corrected at the appropriate entity-level. The most significant risk and internal controls issues are monitored at the Senior Executive and Board level. The Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, compliance with Sarbanes-Oxley (SOX), Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

Reviewing the effectiveness of our internal control and risk management

Each year the Board reviews the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust.

The latest review covered the financial year to 31 March 2017 and the period to the approval of this Annual Report and Accounts. In this review, the Board considered the effectiveness of areas such as the control environment, risk management and internal control activities, including those described below.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid's values – 'do the right thing' and 'find a better way' – provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. We have policies and procedures in place to communicate behaviour expected from employees and third parties, and to prevent and investigate fraud and bribery and other business conduct issues. We monitor and address business conduct issues through several means, including a biannual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the Group level with implementation owned by the business. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues through several means including reviews at US and UK leadership meetings and a biannual review by the Audit Committee.

The Certificate of Assurance (CoA) from the Chief Executive to the Board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place biannually in support of the half- and full-year results. The Audit Committee considers the CoA and provides a recommendation to the Board in support of its review.

The periodic SOX reports on management's opinion on the effectiveness of internal controls over financial reporting are received by the Board in advance of the half- and full-year results. They concern the Group-wide programme to comply with the requirements of s404 of the Sarbanes-Oxley Act and are received directly from the Group Controls team; and through the Executive and Audit Committees.

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

Our internal control and risk management processes comply with the requirements of the UK Corporate Governance Code. They are also the basis of our compliance with obligations set by SOX and other internal assurance activities.

Internal control over financial reporting

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

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

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

As part of our assessment of financial controls in previous years, we identified a number of weaknesses in our US financial control framework. We are making progress in remediating these weaknesses. For more information, including our opinion on internal control over financial reporting, see page 180.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. Our business strategy aims to make sure that our operations and finances are sustainable.

Although it has considered adopting a longer period, the Board believes that five years is the most appropriate timeframe over which we should assess the long-term viability of the Company. The following factors have been taken into account in making this decision:

1. We have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made;

2. In order to test the five-year period the Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five to ten year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified; and

3. It matches our business planning cycle.

We have set out the details of the principal risks facing our Company on pages 16–17, and described the process we use on page 18. Over the course of the year the Board has also considered the principal risks shown in the table below in detail.

In addition to the principal risks, the Board has considered the impact of Brexit and the sale of a majority share in our UK Gas Distribution business. We are not of the view that Brexit will have an impact that could affect the viability of the Company. In relation to the sale of a majority interest in the UK Gas Distribution business, the Board has also concluded that this will not have an adverse impact on the viability of the Company.

The Board has discussed the potential financial and reputational impact of the principal risks against our ability to deliver the Company's business plan. This describes and tests the significant solvency and liquidity risks involved in delivering our strategic objectives within our business model.

The Board assessed our reputational and financial risk capacity, and reviewed the stress testing of the principal risks against that risk capacity, based on assessing reasonable worst-case scenarios over the assessment period. The reputational and financial impacts (to the nearest £500 million) were considered. The risks relating to growth, skills and leadership capacity were not tested, as the Board did not feel they would threaten the viability of the Company within the five-year assessment period.

We chose a number of scenarios for individual testing for impact on the Company's viability, including the following:

Scenario 1 – A cyber-attack on our critical national infrastructure leading to a serious loss of service.

Scenario 2 – A catastrophic gas pipeline failure on one of our assets leading to an explosion and loss of service.

Scenario 3 – A serious fire in our Liquefied Natural Gas terminal at the Isle of Grain.

Scenario 4 – A serious system breach leading to loss of customer data.

Scenario 5 – Emerging technology leading to significant numbers of people going 'off grid'.

In addition to testing individual principal risks, the Board also considered the impact of a cluster of the principal risks materialising over the assessment period. Scenarios developed to represent reasonable worst-case examples of principal risk clusters were assessed for cumulative impact upon our reputation and stakeholder trust. We chose a combination of risks that would represent the greatest potential financial impact and a combination that would represent a potentially significant long-term impact.

Scenario 6 – A cyber security attack and catastrophic US asset failure occurring together within the assessment period.

Scenario 7 – A significant safety event followed by a cyber-attack resulting in a loss of supply and loss of data.

No principal risk or cluster of principal risks was found to have an impact on the viability of the Company. Preventative and mitigating controls in place to minimise the likelihood of occurrence and/or financial and reputation impact are embedded within our assurance system.

In assessing the impact of the principal risks on the Company, the Board has considered the fact that we operate in stable markets and the robust financial position of the Group, including the ability to sell assets, raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund licenced National Grid Gas plc and National Grid Electricity Transmission plc activities.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 16, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to May 2022.

Risk	Matters considered by the Board
Failure to secure satisfactory **regulatory** outcomes/ failure to influence **future energy** policy.	Updates and reviews of: ● the future role of the ESO; ● the impact of Brexit; ● US Regulatory Strategy and initiatives to improve customer service; and ● UK Regulatory Strategy.
Catastrophic **asset failure** resulting in a significant **safety** event.	Safety is a fundamental priority and as such is looked at in detail by the Safety, Environment and Health Committee who have delegated authority from the Board. The Board receives an oral report from the Committee Chairman after every meeting. Additionally, the Board reviews the current safety performance of the Company at each meeting.
We experience a major **cyber security breach** of business and CNI systems/data.	The Board has received regular updates on cyber security. From April 2017 the Board will receive cyber security updates three times a year. The Board has also undertaken cyber security training.

Failure to identify and execute the right opportunities to deliver our **growth strategy**.	The Board has held three strategy sessions this year.
We fail to effectively respond to the threats and opportunities presented by **emerging technology**, particularly the challenge of adapting our networks to meet the challenges of increasing **distributed energy resources**.	The impact of emerging technology is a key part of our strategy sessions.
Failure to build **skills and leadership capacity** (including effective succession planning) required to deliver our vision and strategy.	The Board has had two sessions on strategic workforce planning and building our human resources capability.

Financial review

National Grid delivered good performance in 2016/17. We increased investment in our network assets to provide safe and reliable services for millions of customers and successfully completed the sale of a majority interest in our UK Gas Distribution business.

This section
We provide additional commentary on our KPIs and other performance metrics used to monitor our business performance. Analysis of our financial performance and position as at 31 March 2017, including detailed commentary on the performance of our operating segments (including UK Gas Distribution), is located in the financial statements. However, this analysis still forms part of our Strategic Report financial review.

See pages 198–199 for commentary on our financial performance and position for the year ended 31 March 2016 compared with 31 March 2015. We have also included analysis of our UK regulated financial performance by segment on page 98.

In focus
Use of adjusted profit and definitions of alternative performance measures:
page 193.

Commentary on the consolidated income statement:
page 85.

Commentary on results of our principal operations by segment:
pages 97–98.

In focus
Reconciliations of adjusted profit measures: page193.

Commentary on statement of financial position:
page 89

Additional commentary on financial KPIs

This year, as a result of the UK Gas Distribution sale, our financial statements are more complex than in prior years. In particular, we report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within discontinued operations.

The commentary below is focused principally on the results for the continuing Group.

	2017			2016		
	Continuing Operations	**Discontinued Operations**	**Total**	Continuing Operations	Discontinued Operations	Total
Statutory operating profit	3,208	894	4,102	3,225	860	4,085
Exceptional items and remeasurements	565	–	565	(11)	22	11
Adjusted operating profit	**3,773**	**894**	**4,667**	**3,214**	**882**	**4,096**
Adjusted net finance costs	(1,029)	(146)	(1,175)	(856)	(157)	(1,013)
Share of post-tax results of joint ventures and associates	63	–	63	59	–	59
Adjusted tax	(666)	(142)	(808)	(604)	(149)	(753)
Attributable to non-controlling interests	–	1	1	(1)	(2)	(3)
Adjusted earnings	**2,141**	**607**	**2,748**	**1,812**	**574**	**2,386**
Adjusted EPS	**56.9**	**16.1**	**73.0**	**48.0**	**15.2**	**63.2**
Statutory earnings	1,810	5,985	7,795	1,901	690	2,591
Statutory EPS	48.1	159.0	207.1	50.4	18.3	68.7

Measurement of financial performance

We describe and explain our results principally on an adjusted basis and explain the rationale for this on page 193. We present results on an adjusted basis before exceptional items and remeasurements. See pages 193–195 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position. Further commentary on movements in the income statement is provided on page 85.

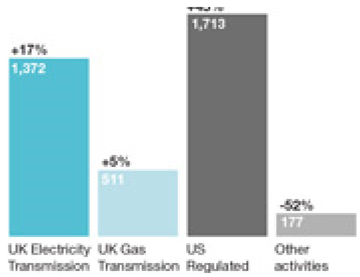
On a statutory basis, operating profit and earnings include a £633 million charge in respect of environmental and gas holder demolition costs and a £68 million gain on commodity contracts in the US. Our total statutory earnings and EPS figures include the profit arising from the sale of the UK Gas Distribution business.

Adjusted operating profit from continuing operations

Adjusted operating profit for the year ended 31 March 2017 was £3,773 million, up £559 million (17%) compared with last year. Operating profit increased in all of our regulated business segments.

For the year ended 31 March 2017, adjusted operating profit in the UK Electricity Transmission segment increased by £199 million to £1,372 million. Revenue was £462 million higher, mainly reflecting higher system balancing revenues, increased regulated revenue allowances and the impact of higher volumes. Pass-through costs were £263 million higher, mainly due to increased system balancing costs. Regulated controllable costs were £25 million lower including reduced environmental costs partly offset by increased employee costs. Depreciation and amortisation costs were £31 million higher, reflecting the continued capital investment programme, and other costs were £6 million lower than prior year including lower asset disposal costs.

UK Gas Transmission adjusted operating profit increased by £25 million to £511 million. Revenue was £33 million higher, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. After deducting pass-through costs, net revenue was £31 million higher than prior year. Regulated controllable costs were £2 million higher than last year, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health



investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than last year.

Within our US Regulated business, adjusted operating profit increased by £528 million to £1,713 million. The stronger dollar increased revenue and operating profit in the year by £1,160 million and £184 million respectively compared to last year's results. Excluding the impact of exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange). Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation costs were £24 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Adjusted operating profit in Other activities was £193 million lower at £177 million. In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs.

Adjusted earnings from continuing operations

For the year ended 31 March 2017, adjusted net finance costs were £173 million higher than they were in 2015/16 at £1,029 million, with the impact of higher UK RPI inflation on index-linked borrowings and increased average net debt levels combined with the impact of the stronger US dollar. This was partly offset by lower tax and pension-related interest.

Our adjusted tax charge was £62 million higher than it was in 2015/16. This was mainly due to higher profits before tax partly offset by some tax settlements in respect of prior years. The effective tax rate for 2016/17 was 23.7% (2015/16: 25.0%).

The earnings performance described above has translated into adjusted earnings of £2,141 million, up £329 million on last year. This equates to adjusted earnings per share (EPS) of 56.9 pence, up 8.9 pence (19%) on 2015/16.

Discontinued operations

Discontinued operations are comprised primarily of the UK Gas Distribution and Xoserve businesses. Adjusted operating profit for discontinued operations increased by £12 million to £894 million. Operating profit from Xoserve decreased by £8 million, reflecting system implementation costs. In UK Gas Distribution, revenue was £36 million lower. This primarily reflects the non-recurrence of last year's revenue over-recovery compared to allowance. Pass through costs were £2 million lower and regulated controllable costs were £13 million higher including costs resulting from an increase in the number of employees. Depreciation and amortisation costs were £84 million lower reflecting the cessation of depreciation from 8 December 2016, following the agreement for the sale of a majority stake in the business. Other costs were £17 million higher than prior year, which included the release of provisions for gas holder demolition costs.

Scrip restatement

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

Group return on equity (RoE)

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

Group RoE has been calculated for the year including a full year of contribution from the disposed UK Gas Distribution business. Group RoE has decreased during the year to 11.7%, from 12.3% in 2015/16. During the year, the UK regulated businesses (including Gas Distribution) delivered a solid operational return of 13.1% in aggregate (2015/16: 13.3%), including an assumption of 3% long-run average RPI inflation. US operational return of 8.2% (fiscal year) was up on last year's 8.0% (calculated on a calendar year basis), reflecting increased revenues from new rate plans in MECO, KEDNY and KEDLI.

As discussed earlier profits from Other activities in the Group were lower than last year, adjusted interest costs for the continuing and discontinued businesses combined were higher and the effective tax rate was lower.

Regulated asset base growth

In total, including all of the regulated asset value (RAV) of UK Gas Distribution, our UK RAV and US rate base increased by £3.8 billion (10%) in the year to £42.6 billion. The increase 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. Following the sale of a 61% interest in the UK Gas Distribution business on 31 March 2017 the Group's total RAV and rate base decreased to £37.1 billion (including a 39% share of the RAV of the disposed UK Gas Distribution business).

The UK RAV (including 100% of the RAV of Gas Distribution) increased by £1.1 billion, reflecting significant capital expenditure, together with inflation. RPI inflation at 3.1% (March to March), was in line with our 3% long-term expectation.

UK RAV growth also included capitalised efficiencies or 'performance RAV' of £110 million this year.

US rate base has increased by £2.7 billion this year. Of this, £1.9 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.8 billion, reflecting a significant 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.

Value Added for the year has been calculated on a combined basis and so excludes the impact of the UK Gas Distribution sale, which completed on 31 March 2017.

Overall Value Added in the year was £1.9 billion or 51.6 pence per share as set out below:

	Year ended 31 March		
£bn at constant currency	**2017**	**2016**	**Change**
UK regulated assets[1]	26.6	25.9	+0.7
US regulated assets[1]	17.1	16.3	+0.8
Other invested capital	2.2	2.0	+0.2
Total assets	45.9	44.2	**+1.7**
Dividend paid			+1.5
Share buyback			+0.2
Movement in goodwill			–
Net debt[2]	(29.1)	(27.6)	-1.5
Value Added			**+1.9**

1. Includes assets held outside RAV and rate base including deferrals of cost recoveries e.g. environmental and pension costs.
2. Net debt at 31 March 2017 adjusted to remove the impact of the UK Gas Distribution sale.

	Year ended 31 March	
	2017	**2016**
Value Added per share	51.6p	47.6p

Value Added in the year was higher than 2015/16 (£1.8 billion or 47.6 pence per share) as a result of higher inflation on UK regulated assets (March 2017 RPI of 3.1%, prior year 1.6%) and improved US performance. Of the £1.9 billion Value Added in 2016/17, £1,463 million was paid to shareholders as cash dividends and £189 million as share repurchases (offsetting the scrip issuance during the year), with £289 million retained in the business.

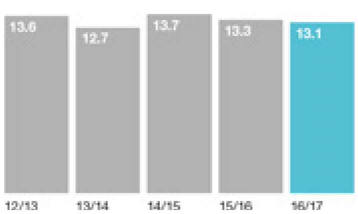
The Board is confident that growth in assets, earnings and cash flows, supported by improving cash efficiency and an exposure to attractive regulatory markets, should help the Group to maintain strong, stable credit ratings and a consistent prudent level of gearing, while delivering attractive returns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

Other performance measures

Regulated return on equity
US and UK regulated returns are calculated using the capital structure assumed within their respective regulatory arrangements and, in the case of the UK, assuming 3% RPI inflation. As these assumptions differ between the UK and the US, RoE measures are not directly comparable between the two geographies. In our performance measures, we compare achieved RoEs to the level assumed when setting base rate and revenue allowances in each jurisdiction.

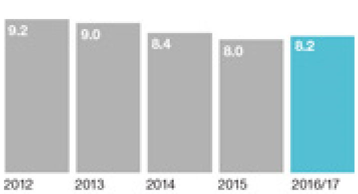
UK regulated return on equity
UK RoE has decreased 20bps to 13.1%. This reduction in RoE reflects a reduction in incentive performance year-on-year, particularly as a result of the decline in legacy revenue incentive recoveries in the Gas Transmission business. Totex out-performance was at a similar level to last year, representing 160bps of our out-performance over allowed returns.

UK return on equity %



US regulated return on equity
US RoE for fiscal year 2016/17 increased 20bps to 8.2%, compared to calendar year 2015, reflecting the benefit of new rate cases and capital trackers on the sizeable investment programme. The 8.2% achieved return compares to an allowed return of 9.5%.

US return on equity %



RoEs for 2012 to 2015 are for calendar years, RoE for 2016/17 is for the fiscal year to 31 March 2017.

Return on capital employed
RoCE provides a performance comparison between our regulated UK and US businesses and is one of the measures that we use to

Return on capital employed %

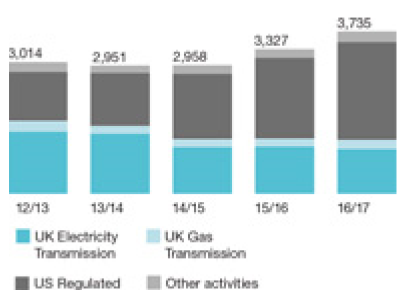
The UK RoCE has decreased from 8.1% to 7.8% in 2016/17. This reflects the reduction in legacy incentive revenues in our Gas Transmission business in the year.

US RoCE has remained at the same level as last year at 5.7%. Regulated financial performance has increased compared with last year, offset by growth in the rate base, driven by capital investment.

Capital expenditure
For the year ended 31 March 2017, capital expenditure of £3,735 million for the continuing business was £408 million higher than last year. The Group also invested £127 million in a number of joint ventures including a new electricity interconnector between the UK and Belgium and £42 million into a partnership with Sunrun Inc. in the US. In addition, the Group invested a further £10 million in the St William Homes joint venture with Berkeley Group.

Our US Regulated business continues to increase levels of investment in network reinforcement and resilience. Capital expenditure in 2016/17 was £391 million higher than last year, and reflected higher spend on gas mains replacement, gas customer growth and system reinforcement together with the impact of a stronger US dollar.

Capital expenditure for continuing operations £m



Discontinued operations
UK Gas Distribution and Xoserve capital expenditure was £22 million higher than last

During the year we generated £1.2 billion of business net cash flow after our capital expenditure programmes. This has enabled the growth of the dividend per share in line with average RPI, being 2.1% (2015/16: 1.1%; 2014/15: 2.0%), taking into account the recommended final dividend of 29.10 pence per ordinary share.

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

Net debt and credit metrics
We expect capital investment programmes and network enhancement will continue to be funded by market borrowings. We continue to borrow at attractive rates when needed and the level of net debt remains appropriate for the size of our business.

During 2016/17, net debt has decreased by £6 billion. This is driven by cash flows related to the disposal of 61% of our UK Gas Distribution business of £10.2 billion and business net cash inflows (after cash capital investment) of £1.3 billion (excluding UK Gas Distribution disposal costs), partly offset by outflows from interest, dividends, tax and other financing flows of £2.7 billion, with non-cash movements such as foreign exchange and accretion of interest increasing net debt by a further £2.8 billion.

A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt (RCF/net debt). This is a measure of the operating cash flows we generate, before capital investment but after dividends paid to shareholders, compared with the level of debt we hold. The principal adjustments made to net debt are in respect of pension deficits and hybrid debt instruments. The impact of the UK Gas Distribution transaction has a positive effect on the metric in the year of sale. RCF/net debt was 15.8% for the year (2015/16: 11.5%; 2014/15: 11.2%). We have actively managed scrip uptake through buying back shares when supported by sufficient headroom in the RCF/net debt metric. Deducting the costs of buying back these shares reduces RCF/net debt to 14.9% for the year.

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

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing monitor our portfolio of businesses. The following table shows our RoCE for our businesses over the last five years:

year at £588 million, reflecting higher system reinforcement workload.

Dividend growth

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

our borrowings. Interest cover for the year was 5.0 times (2015/16: 5.5 times; 2014/15: 5.1 times). Our target long-term rate for interest cover is in excess of 3.0 times.

In focus
Commentary on the consolidated cash flow statement
page 91

Commentary on borrowings
page 127–128

In focus
UK regulation pages
174–175

UK regulation pages
176–179

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 174 to 179, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from the estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing.

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

Our continuing operating profit for the year includes a total estimated in-year over-collection of £398 million (2015/16: £1 million under-collection). Our closing balance at 31 March 2017 was £414 million over-recovered. In the UK, there was cumulative over-recovery of £82 million at 31 March 2017 (2016: under-recovery of £133 million for continuing operations). In the US, cumulative timing over-recoveries at 31 March 2017 were £332 million (2016: £135 million over-recovery). A sizeable part of that balance will be returned to customers next year.

In addition to the timing adjustments described above, as part of the RIIO price controls in the UK, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time. We are also recovering revenues in relation to certain costs incurred (for example pension contributions made) in prior years.

As required under accounting standards our current IFRS revenues and earnings include these amounts that relate to certain costs incurred in prior years or that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our UK regulated businesses as a whole (excluding the UK Gas Distribution business), timing and regulated revenue adjustments totalled £408 million in the year (2015/16: £227 million). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2017, these extend until 2071.

Principal operations – UK

Nicola Shaw, Executive Director, UK, describes significant developments that include the sale of a majority interest in the Gas Distribution business and the conclusion of Ofgem's mid-period review of the RIIO price control for Transmission.

Nicola Shaw CBE
Executive Director, UK

In focus

Evolving energy landscape

11.9GW

is the capacity of installed solar PV in the UK in March 2017 (compared to 0GW in March 2007).

Cost savings for consumers

£200m

is the approximate expected cost saving resulting from awarding Enhanced Frequency Response contracts for more than 200MW of battery storage in July 2016.

Transmission

284TWh

of electricity flowed across the transmission network in 2016/17, enough to boil 2.3 trillion kettles.

90.5bcm

of gas was transported across the transmission network in 2016/17, enough to fill the Albert Hall 914,000 times.

This year, sadly, safety has been brought into the sharpest focus for all of us.
A National Grid employee died following an incident at our East Claydon substation. We have undertaken a detailed internal investigation to establish exactly how and why this happened and to learn all possible lessons from it. We are continuing to co-operate with the Health and Safety Executive (HSE) as it carries out its independent investigation. We are also implementing a wide-ranging plan aimed at delivering safety improvements. Safety will continue to be a fundamental priority.

Looking now at organisational developments, this year, in line with our plans, we separated Gas Distribution into a stand-alone business and sold a majority interest. While preparing the business for sale and a new ownership structure, we maintained our focus on operational delivery, which resulted in continued solid performance for Gas Distribution. You can read more about the performance of this business on pages 20–22.

In addition, the Board approved the second interconnector between the UK and France (IFA2), and we launched our new smart metering business. You can read more about these developments on pages 28–29.

As John has described in his review on pages 6–7, we issued a joint statement with BEIS and Ofgem regarding the enhanced role and greater separation of the ESO function. This is a sensible step forward, recognising the need for stability in the organisation during a period of rapid industry change, and the importance of bolstering the perceived independence of the ESO within the National Grid Group.

We welcomed the conclusion of the mid-period review of the RIIO price control for Transmission which has given us certainty over our core revenues for the remaining RIIO period. Ofgem made some adjustments to allowances in both Electricity and Gas Transmission for outputs no longer needed in the RIIO period, and

consecutively, on the standard of apprentice training offered by our Academy. Addressing the skills shortage, and providing high-quality training, remains important to us. You will find further details on this and additional awards on pages 30–31.

Operational performance

Our key performance indicators are reported in detail on pages 10–13. Our network reliability figures decreased slightly for Gas Transmission and Gas Distribution and are marginally below target this year. Electricity Transmission exceeded target. We continue to work on initiatives that aim to strengthen reliability, such as our asset health improvement work. For example, we have made good progress on the Feeder 9 gas pipeline replacement project. This involves boring a five kilometre tunnel beneath the River Humber to replace a section of gas pipeline. We are also developing new technologies to deliver work faster and increase network reliability. This includes using a malleable material that can be quickly installed to replace porcelain and polymer insulators where underground cables and overhead technology meet.

We have worked hard to find ways of operating more efficiently, so we can make our business more agile and competitive. For example, our Electricity Transmission business is now carrying out protection system replacements in less than half the time and for significantly lower cost. Within Gas Transmission, we initiated a project to upgrade some air compressor units, reducing carbon dioxide emissions by 1,228 tonnes, and yielding long-term financial savings of £2.42 million.

We installed new gas control systems and made significant progress in installing new electricity control systems – these will help us meet the challenges of the changing energy world and, therefore, help us balance gas and electricity even more efficiently, keeping costs to consumers down.

Distribution

10.9m

is the approximate number of consumers served by the gas distribution networks.

approved additional funding for new activities undertaken by the ESO.

We have also taken the decision to volunteer a deferral of £480 million of RIIO-T1 allowances. This deferral will enable better alignment of the allowances with the likely timing of spend and also help to lower bills in the near term.

Ofgem continues its work to enable onshore competition in electricity transmission. The majority of projects will not be contested, and National Grid Ventures is preparing to compete for any that are. We are also providing input and support into the ongoing development of the regulatory framework for competition.

Earlier in 2017, BEIS confirmed, through the 'Building our Industrial Strategy' green paper, its intention to focus on developing technical education and skills. So, I was particularly delighted when we received an Outstanding grade from Ofsted, for the third time

We have used our regulatory innovation funding to develop ways to serve our customers more effectively, provide greater value, and shape the energy systems of the future. Through Project

Switchgear replacement in Walpole

"Replacing our switchgear in Walpole in the UK was a complex operation. It involved replacing 23 circuits – some owned by National Grid, others by UK Power Networks and Western Power Distribution. It was originally installed in the 1960s, and updating it was important, helping make sure it continues to provide a reliable service.

The replacements needed to be done in a specific order and involved an enormous amount of planning. When I took on responsibility for the project, we gradually developed a strong collaborative partnership approach with National Grid – concentrating on outcomes that were best for both companies.

A weekly technical issues conference call was an important part of developing a team spirit. Although I created a technical issues log it was National Grid who picked this up and reviewed it each week on the conference call – a good example of National Grid's responsiveness during this project."

"The positive team ethic, which we developed together over a period of time, led to an extremely productive 2016."

Geraint Hancock
Project Manager at UK Power Networks

CLoCC (Customer Low Cost Connections), for example, we're challenging every aspect of the current Gas Transmission customer connections process. It aims to reduce the time to connect from three years to less than one, and reduce the cost from up to £2 million to significantly less than £1 million. It will also make it easier for non-traditional customers to connect to the NTS.

In November 2016, Ofgem confirmed funding for new Network Innovation Competition projects. We were successful in our bid with UK Power Networks on the 'Power Potential' project, which is a new £9.5 million market trial relating to voltage control. Also, National Grid will work with SP Energy Networks on a £19.9 million project that will help address some of the current and future challenges associated with the stability of Britain's electricity transmission system as we transition to low-carbon energy. Details of our innovation projects are published at www.nationalgrid.com/innovation.

Although we exceeded our customer satisfaction targets, the figure for Electricity Transmission decreased slightly compared to last year. We are working hard across our UK business to place customers at the heart of our operations. We're holding workshops for customers so we can gain a more in-depth understanding of their requirements. We have also started to examine each point of contact they have with our Company, so we can identify where we can improve our processes and our customers' experience with us. We will be testing proposed improvements with customers before we implement them.

Shaping the future of energy

This year we launched a nationwide conversation on the future of gas to gather insights on the future role of gas and the gas transmission network. Gas will continue to be an important part of the mix in ensuring a secure energy supply at best value for consumers while Britain transitions to a low-carbon future. By response to fluctuations in system frequency and contracts have been awarded for over 200 MW of battery storage. Our Demand Turn Up service was used for the first time during the summer, calling on organisations to make productive use of excess electricity in the system during this traditionally low-usage period.

We developed these balancing services in anticipation of fundamental changes in system operation. This year, for the first time, we saw periods where no coal-fired power stations generated electricity and periods where the Scottish network was operated successfully with no fossil fuel generation. This was against a backdrop of an increase in installed wind and solar generation of more than 10%.

We continue to provide input to Government and Ofgem on the development of future energy systems. This includes the call for evidence on 'A Smart Flexible Energy System', which examines how we can make the most of innovation and new technologies in designing the future electricity system.
At a European level, we have worked closely with organisations such as ENTSO-E and ENTSOG (the European Network of Transmission System Operators – for electricity and gas respectively) to implement a number of framework changes in a way that works for Britain's energy market and our customers.

Looking ahead

Our main focus in the UK is on the first of our three strategic priorities described on page 8, which is to drive a step change in core business performance. We have detailed plans

This year we made good progress on several major customer connection projects. We have improved the way we consult with all our stakeholders on major projects by simplifying how we present information – using clear language, more visual displays and virtual reality modelling – and by holding more events in a variety of easily accessible venues. We received positive feedback on our stakeholder engagement via our major project survey.

engaging with stakeholders to understand what customers and end consumers value, this project will help us to identify optimal levels of future investment in the system and innovative ways to adapt our commercial arrangements.

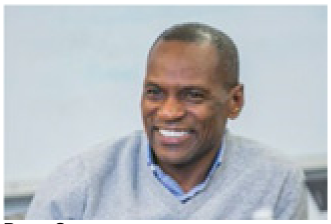
We have collaborated with organisations that provide demand side flexibility to develop new electricity balancing services. Enhanced Frequency Response provides a sub-second

in place to improve safety, our delivery for customers and our efficiency. We are continuing work in a number of priority areas, including the separation of the ESO.

I am proud to be the executive sponsor for this year's UK employee chosen charity, which is Alzheimer's Society. I look forward to providing an update on this in next year's Report.

Principal operations – US

Dean Seavers, Executive Director, US, provides an overview of performance and developments during 2016/17, including progress on our rate cases across the region.



Dean Seavers
Executive Director, US

In focus

Electricity

3.5m

approximate number of customers across upstate New York, Massachusetts and Rhode Island.

Gas

3.6m

approximate number of customers across upstate New York, New York City, Long Island, Massachusetts and Rhode Island served by our gas distribution networks.

When I think about the past year, it's the times spent visiting with customers that stand out. I feel fortunate because wherever I am in our service territory, I see solid evidence that we are making energy more affordable, safe, and reliable for all customers. We're doing it through infrastructure investments, energy efficiency, and economic development.

While energy can't be free, our customers shouldn't have to pay for waste. The work we're doing in each of our jurisdictions shows how we're eliminating waste, becoming a clean energy company, and future-proofing our business for generations to come.

Becoming a great operating company

We aspire to be a great operating company and one way is by making rate cases a priority. Our rate plans set the foundation for how we run our business and serve our customers and communities, focusing on safe, reliable, and affordable electricity and gas service. Our rate plans inform infrastructure investment, innovation and bill impact.

After several years under the same rate structures in all three states we serve, we filed new rate cases last year. Like any business or municipality, our costs have risen, so we filed a rate proposal in Massachusetts to increase electricity distribution rates, and two proposals in downstate New York, to increase gas delivery rates in New York City and Long Island.

In September, we received an order from the Massachusetts Department of Public Utilities (MADPU) that allows us to update our electricity distribution prices for the first time since 2010. The order lets us invest $249 million to update and strengthen the electricity system and recover the increasing costs of running our business, which include operation and maintenance expenses, property taxes and storm response.

I believe that our focus on providing affordable, safe, reliable energy for all customers will make us a great operating company.

Safety

This year, the US business has seen a 5% reduction in the number of injuries requiring medical attention beyond first aid. Safety, Health and Environment (SHE) plans addressing current risks and injury trends were expanded to all managers. To increase transparency, under-performing teams were required to develop and communicate performance improvement plans to the executive leadership. Additional focus has been on reducing road traffic collisions through targeted training and communications.

We will continue to use SHE plans to focus on hazard elimination and road traffic collision reduction in 2017/18. We will also be implementing a mental well-being programme.

A clean energy company

Another factor in becoming a great operating company is becoming a clean energy company. This is nowhere more apparent than in Rhode Island where, in a first-in-the-nation milestone, we began delivering electricity generated by an offshore wind farm.

In December, after just 11 months of construction on 'sea2shore: The Renewable Link project', we began delivering electricity generated by the offshore Block Island Wind Farm to the electricity grid in Rhode Island and to customers.

In December, the NYPSC approved our rate proposals for KEDNY and KEDLI. The decision outlines a three-year rate plan for our 1.2 million gas customers in downstate New York, effective from 1 January 2017. By the end of 2019, we intend to invest $3 billion into our gas systems and replace 585 miles of ageing pipes in New York City and Long Island.

Our key objective for this year is to achieve a good outcome in our rate filing for Niagara Mohawk, which was filed in April 2017. This represents 30% of our US rate base.

The filing is the first full rate review for this utility since 2013 and will allow us to modernise the electric and gas networks to further enhance reliability and resiliency. It will also help us improve customer service, including programmes to assist vulnerable customers, promote economic growth and develop the energy infrastructure and technologies that support the demands of a modern energy system.

The Block Island Wind Farm is expected to supply approximately 30 MW of electricity, more than enough to meet Block Island’s entire current peak demand of 3-4 MW. The excess will be redirected to mainland Rhode Island via the submarine cable running between Block Island and the town of Narragansett.

Another example is our new approach to testing large-scale solar. We are deliberately targeting installations that will provide additional energy to communities when they need it the most, vastly improving the value of solar projects to customers.

Buffalo Niagara Medical Campus

The Buffalo Niagara Medical Campus (BNMC) is an economic engine for the City of Buffalo and the region. A collection of hospitals, life science research and educational facilities, medical offices, and even a hotel, it encompasses 120 acres just north of the downtown business district.

Together, we have formed a unique energy partnership, as BNMC's pace of growth is matched by its demand for energy. We developed a comprehensive strategy to transform the campus into a global leader in energy innovation, and are looking to extend the innovation approach to surrounding neighbourhoods. It involves adopting new technologies and sustainable energy solutions – creating a blueprint for other large campus developments.

Matt Enstice, President and CEO of BNMC, believes the campus is firmly on the map and that its remarkable energy journey would not have been possible without National Grid.

"It's a partnership model for the future, National Grid seeded initiatives that have changed the game."

Matt Enstice, President & CEO, Buffalo Niagara Medical Campus, Inc. Canisius College

We presently have 21 MW of National Grid-owned solar built or under contract in Massachusetts, with plans to add 14 MW more. This includes the ability to build 7 MW of renewable energy storage, marking the first time an investor-owned utility in the region will build, own, and test renewable energy paired with storage.

We're also starting to add battery storage technology to our large-scale solar installations, experimenting with the same technology you'd find in a Tesla all-electric vehicle, but more than 10 times the size.

New York State's Reforming the Energy Vision (REV) has enabled us to pursue innovative demonstration projects that address affordability and renewable energy.

Traditional solar installations generate electricity only for one resident or business who can afford it. Through our Fruit Belt Neighborhood Solar project in Buffalo, we are bringing rooftop solar to an entire city section. We will aggregate the power from 100 neighbourhood solar installations and share the benefits with residents who otherwise might not be in a position to install on their own.

Investing for the future

As I've described above, having the right rate plans in place allows us to invest. Below are some examples of how investments are helping us to future-proof our business for generations to come.

heels of new legislation that makes it more attractive to choose emission-free automobiles by improving access to public charging.

We received good news in July that New Hampshire regulators had approved construction of the Merrimack Valley Reliability Project (MVRP) – a 24.4 mile, 345 kV overhead transmission line that will run in existing utility rights-of-way between Londonderry, New Hampshire, and Tewksbury, Massachusetts. The MVRP addresses the concerns of New England's independent system operator, ISO-New England, relating to ageing infrastructure and anticipated increases in electricity demand.

In January, we assumed primary responsibility for developing the Vermont Green Line (VGL) project. VGL is a proposed 400 MW, HVDC electricity transmission project, designed to unlock and deliver reliable and affordable renewable energy to New England.

In August, we withdrew our petition for capacity on the Access Northeast (ANE) gas pipeline, after the Supreme Judicial Court ruled that Massachusetts electric companies could not charge their customers for the cost of building natural gas pipelines in New England.

ANE is designed to help secure New England's clean energy future, ensure the reliability of the electricity system, and save customers more than $1 billion annually on their electricity bills. We continue to explore our options for a potential path forward with ANE and pursue a balanced portfolio of solutions to provide the clean, reliable, and secure energy our customers deserve.

Looking ahead

It's been a busy year, living first-hand how we bring energy to life for our customers, stakeholders, and communities. And it's what we'll aim to do again next year. Our US priority initiatives support National Grid's three strategic priorities – below are some examples.

We will find new ways of optimising our operational performance. We've started by enabling our supervisors to spend more time in the field, strengthening the connection to our customers, coaching and mentoring employees, and creating a learning and growth environment. Through a new gas

We are assisting with green transportation in Massachusetts. In January, we filed a proposal with MADPU to develop more than 1,200 electric vehicle charging ports at 140 sites over a three-year period. Our proposal came on the

enablement initiative, we are upgrading systems, improving processes and developing ways of working to serve our customers better. And, we are strengthening the energy supply chain that will take us to a decarbonised future.

Next, we will look for opportunities to grow our core business. We'll do this through capital delivery and stakeholder engagement.

And, we will future-proof our business for technology and value shifts. This means continuing the work we are doing with Grid Modernization in Massachusetts, with REV in New York and with the New Energy initiative in Rhode Island.

Principal operations – Other activities

This part of our operations includes non-regulated businesses and other commercial operations not included within the business segments.

National Grid Ventures

We have announced the creation of National Grid Ventures to drive growth outside of our regulated core in competitive markets across the US and the UK. The business will comprise all commercial operations in metering, LNG and electricity interconnectors, and focus on investment and future activities in emerging growth areas, a recent example of which is our partnership with Sunrun.

In focus

Sunrun

In January, we formed a partnership with Sunrun, the largest dedicated provider of residential solar systems in the US. This partnership comprises a $100 million equity investment in Sunrun's portfolio of approximately 180 MW of residential solar systems across 18 states, including those in which we operate. National Grid Ventures will manage our interest in Sunrun.

Interconnectors

National Grid is the biggest operator and developer of electricity interconnectors to the UK, with two subsea links in operation and two currently under construction.

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

Celebrating its 30th year of operation in 2016, the England–France interconnector (IFA) is a 2 GW HVDC link between the French and British transmission systems with ownership shared between National Grid and Réseau de Transport d'Electricité (RTE). As with BritNed, a substantial proportion of the flow continues to be in the import direction from France to Great Britain.

Following Board approval for the Belgium (Nemo Link) and Norway (North Sea Link) interconnectors in 2015, significant progress has been made on both projects.

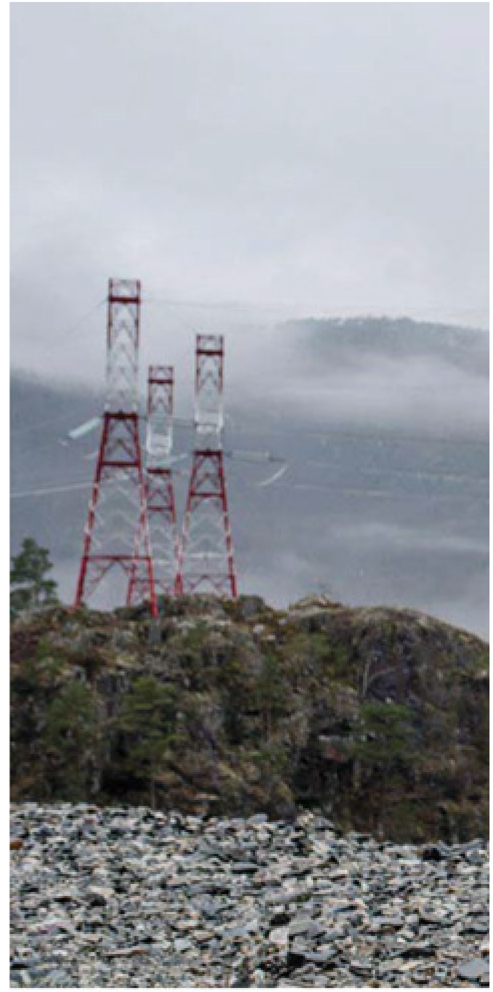
Nemo Link, developed between National Grid and Elia, the Belgian transmission system operator, will connect Richborough in the UK and Herdersbrug in Belgium. The subsea cable will be 130 kilometres in length and have a capacity of 1 GW. Seabed surveys and construction work have already taken place on the project, which is planned to be operational in 2019.

North Sea Link (NSL) will connect Blyth in the UK and Kvilldal in Norway. Developed between National Grid and the Norwegian transmission system operator Statnett, NSL will be the longest subsea cable in the world at 720 kilometres. The 1.4 GW link is expected to be operational by 2021. Construction started in Norway in 2016, while work in the UK will begin this year.

The Board also approved the 240 kilometre IFA2 interconnector in November 2016. Developed with RTE, the 1 GW subsea cable will connect Hampshire in the UK and Normandy in France. The link is expected to be operational in 2020, with construction starting in 2018.

Grain LNG

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



"It's a project that ticks the boxes – helping to meet renewable energy targets and keeping the lights on for customers."

Nigel Williams
Project Director, North Sea Link

North Sea Link

Stretching 720 kilometres under the North Sea, the € 2 billion North Sea Link (NSL) will be the first electricity interconnector between the UK and Norway.

This joint project, between National Grid and Statnett, the Norwegian transmission operator, is the biggest of its kind in the world and will mean laying new cable over four years in challenging North Sea sub-sea conditions. We've developed a close working partnership with Statnett – a one-team approach – so we can make sure the project progresses safely, economically and to stringent deadlines.

NSL will allow both countries to trade energy, and contribute to more production of renewable energy on both sides. This will give both countries a wider spread of electricity supply to turn to when they need it.

Our road tanker loading facility was commissioned in November 2015. The new loading hub offers a more environmentally-friendly alternative fuel and allows road tanker operators to load and transport LNG in bulk. Grain carried out its 1,000th road tanker reload in 2016.

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 12.3 million domestic, industrial and commercial meters.

Customer satisfaction scores for NGM remain positive for domestic, industrial and commercial businesses. We continue to work with our customers on areas for improvement by exploring additional products and services so we can respond to the rapidly changing non-domestic sector.

National Grid Smart became operational in November 2016, supporting energy suppliers in fulfilling their UK smart meter roll-out obligations. National Grid Smart offers a variety of services from meter asset financing and customer relationship management through to installation and maintenance services, and has secured customer contracts over the last six months. By the end of 2020, around 53 million smart meters will be fitted in more than 30 million premises (households and businesses) across England, Scotland and Wales.

UK Property

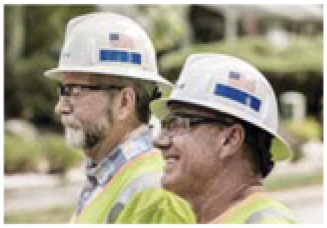
National Grid Property is responsible for the management, clean-up and disposal of surplus sites in the UK, most of which are former gas works. During 2016/17, we sold 19 sites and exchanged conditional contracts on a further 14 future land sales. We entered a new phase of our joint venture, St William Homes LLP, starting construction of 955 new homes on our first site at Battersea. Our estate management, gas holder dismantling and contaminated land clean-up programmes continue to reduce operational risk across our portfolio.

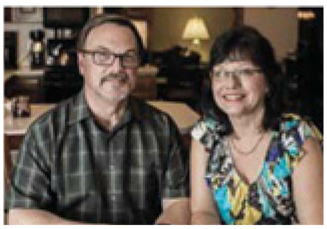
US non-regulated businesses

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

Our people

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





Being good neighbours
"When someone does a great job, the company they work for needs to know and that's why I'm writing to you."

Ron Lamb, Rhode Island
"When we lost electricity in my neighbourhood in Rhode Island, I called to report the outage and then went to bed. I woke up at 3:30am and noticed we still didn't have electricity, so I went downstairs to check the National Grid website, which showed a crew was assigned and the estimated time electricity would be back on was 8:00am. I looked out of the front window, to find a large crew of workers, trucks and equipment.

The thing that amazed me was this crew was going about doing their jobs making very little noise, I would never have known they were there. At 6:30am one of the guys came to tell us they'd repaired the cable and he brought me my newspaper, so I emailed to say thanks for being a good neighbour."

Building skills and expertise to drive performance

Our sector is undergoing a period of massive transformation and uncertainty, so we are taking steps to help make sure our workforce capacity and capability remains flexible enough to deliver our strategic objectives. For example, we are using a new strategic workforce planning programme. This helps us determine where we could have future shortfalls in our workforce requirements across a range of possible scenarios over the next 10 years. It also helps us plan investment for recruitment and training, so we can make sure we always have the right skills in the right place at the right time.

During 2016/17, we have taken steps to improve our people's capability, primarily across four main areas: leadership, contract management, stakeholder management and performance excellence. We are also setting the standards that we need to achieve in other capability areas, including data management, customer focus and commerciality.

Our Accelerated Development Programme is designed to enhance our leadership succession planning by developing the skills of employees seen as having potential to grow into our senior roles. During 2016/17, 117 participants started the 18-month programme.

Safeguarding the future

We remain committed to helping address the significant skills challenge facing the engineering profession in the UK and US.

In the UK, the 2015 Employer Skills Survey highlighted that 36% of hard-to-fill vacancies in the UK energy and utilities sector were due to a lack of proficient skills – well above the 23% national average and notably higher than any other sector.

In the US, we completed the seventh year of our National Grid Engineering Pipeline programme, designed to inspire high school students to pursue an engineering education and career. To date, 304 promising students have participated.

We promoted STEM education and careers to more than 300 middle and high school students during our Engineering our Future initiative. We also partner with seven local community colleges to deliver programmes designed to produce future electricity line workers.

We have further partnerships with the Center for Energy Workforce Development on its 'energy industry fundamentals'; and with Jefferson Community College, Con Edison and Fort Drum to establish the Troops to Energy Natural Gas Bootcamp. This six-week training programme helps soldiers exiting the military transition to civilian work – and will help meet the need for natural gas workers in the northeast.

US work experience opportunities include summer internships – with some interns starting their journey into the energy industry through our Engineering Pipeline programme. Some students go on to join our Company through our graduate development programme or regular full-time opportunities. This past year, we have doubled our graduate development programme in the US and incorporated best practices from the UK, including adopting the UK's online assessment and interview day processes.

Promoting an inclusive and diverse workforce

Our inclusion and diversity activities include attraction and recruitment, development, leadership, role modelling and cultural change.

To help address this, we are involved in a number of initiatives. For example, our Chief Executive and specialists from our Academy are members of both the Council and Delivery Board of the Energy Utility Skills partnership and have supported the creation of the Energy and Utilities' Workforce Renewal Skills Strategy 2020. This has involved collaborating with the wider sector to address priorities such as recruitment, investment in skills and targeting skills gaps.

Our Academy offers residential work experience programmes for 100 young people annually, balanced 50/50 between boys and girls. We participate in the annual Big Bang Fair, which is designed to promote interest in STEM subjects and careers.

During 2016/17, 316 people have participated in our apprentice, engineering, student and graduate development programmes. In November 2016, our apprentice programme was ranked 'Outstanding' by Ofsted for the third time consecutively.

We aim to attract a diverse range of applicants, including under-represented groups. In the UK, our Women in National Grid Yearbook, which showcases a number of our UK female role models, is available to potential applicants so they can envisage a career with us. In the US, our priorities have included more veterans and women into 'non-traditional' roles, such as engineering and field technicians.

We recognise the value that a diverse workforce and an inclusive culture bring to our business. Our policy is that people with disabilities should have fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable adjustments in job design and provide appropriate training for existing employees who become disabled. We are committed to equal opportunity in recruitment, promotion and career development for all employees, including those with disabilities, and our policy recognises the right of all people to work in an environment that is free from discrimination.

In focus

100%

The conversion rate for the natural gas technician certificate programme we have developed in partnership with the State University of New York. This initiative is designed to address future hiring needs for our gas operations.

6.5

days per employee
The average amount of technical, safety and professional effectiveness training undertaken by our employees in the UK and US during 2016/17.

Celebrating our female role models
Vicky Higgin (pictured above), a senior leader in our Information Services function, won leader of the year at the FDM everywoman in Technology Awards, which recognise the value of women working in IT. Vicky, who joined National Grid in a junior role in 1997, was recognised for her leadership and varied National Grid career. This includes her work with Engineering UK, a charity that encourages young people into engineering.

We have reviewed some of our leadership development programmes to place a stronger emphasis on inclusion and diversity. For example we have further developed our unconscious bias training and added it to our US supervisor development programme.

We believe leadership involvement is an important factor in building an inclusive culture. Many leaders are sponsors of our employee resource groups or mentees in our reverse mentoring programme. These activities provide our leaders with a greater understanding of the challenges facing our diverse workforce, and more confidence in discussing diversity in the organisation. Senior role models are being encouraged to show how they are bringing an inclusive culture to life.

Our Employee Resource Groups build awareness and understanding of inclusion and diversity throughout the organisation. They also provide valuable feedback and suggestions for improvements. For example, a proposal from our US Work-Life group led to the launch of our new Parental Bonding Policy, which provides enhanced support to employees after the birth or adoption of a child. In the UK, 'One', our ethnic minority group, organised Black History Month events to raise the profile of ethnic diversity.

Externally, we were recognised as an employer of choice in the US with an award from the Human Rights Campaign Foundation as one of the 'best places to work' for LGBT equality. In the UK, our EmployAbility scheme, which provides supported work experience for young people with learning disabilities, is recognised as best practice by the Business Disability Forum.

Following the UK Gender Pay Gap Information Regulations in the UK, approved by Parliament in February 2017, we will be disclosing additional pay gap information during 2017 according to the approach outlined in the regulations.

The table opposite shows the breakdown in numbers of employees by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group.

	Financial year ended 31 March 2017		
	Our Board	Senior management	Whole Company*
Male	8	167	16,802
Female	4	68	5,330
Total	12	235	22,132
Male %	66.7%	71.1%	75.9%
Female %	33.3%	28.9%	24.1%

* This measure is also one of our Company KPIs. See page 12 for more information.

Health and well-being

During 2016/17 we have continued to promote the importance of well-being across our business.

In the UK, we have a leading role in the Business in the Community Workwell campaign, which promotes mental well-being in the workplace. More than 900 people, including around 30 of our senior leaders, have attended our mental health first aid course to date. We also ran a diabetes awareness campaign in which employees could assess risk and learn more about diet and activity.

Our activities in the US included a programme aimed at reducing soft tissue injuries through early intervention and prevention. Specialists are available to employees, providing on-site therapy services and advice. Other activities included a focus on chronic disease prevention through educational programmes and wellbeing initiatives.

Building strong communities

We believe a strong community is good for the people who live there, good for our business and good for the wider economy. To further support the communities in which we work and live, we partner with charity organisations, and provide communities with one-off grants to support their social, economic and environmental development. We also empower our employees to pursue projects and their chosen causes through volunteering in their neighbourhoods.

We support local schools and colleges with work experience opportunities and careers advice sessions. Our engineers help to bring STEM subjects to life. Last year, our community engagement and investment in education was valued at £12,364,891, with our UK employees giving over 18,400 hours of volunteering support and the US providing more than 22,900 hours of interactions with young people on STEM subjects.

Human rights

Respect for human rights is incorporated into our employment practices and our values. See page 191 for more information.

Letter from the Chairman and Corporate Governance contents

Sir Peter Gershon
Chairman

Corporate Governance contents

Dear Shareholders,

This last year has seen a significant focus on shaping the strategic direction of the Company and maximising value creation for our shareholders. The Board has overseen the sale of a majority interest in the Company's UK Gas Distribution business, given approval for the IFA2 interconnector, the formation of a partnership with Sunrun in the US and the work undertaken to support a more independent electricity system operator in the UK.

We are mindful of value creation for shareholders as well as our responsibility to all stakeholders in our decision making. The Board always takes into consideration its fiduciary duties to the Company under the Companies Act 2006, in particular the duty to promote the success of the business, when arriving at decisions that it believes are in the best interests of shareholders and the long-term future of the Company.

Management reporting

During the year, a review was undertaken to make sure that the management reports to the Board were providing the information required to facilitate effective discussions and support decisions. Changes were also made to the timing and frequency of reporting to the Board. We believe that these changes will allow the Board to better monitor the performance of the Company and hold management to account.

Cyber security

Cyber security continued to be a key area of focus for the Board this year. In addition to various updates from management, an external advisor delivered a Board training session designed to highlight the role of the Board in effective cyber security governance and provide an insight to the key challenges unique to the Company. The training also sought to equip Board members with examples of questions to ask in order to challenge management and make sure that the controls in place align with the Company's risk appetite and culture. Management has recently developed a new cyber security management report and we will continue to monitor the performance and level of risk on a regular basis next year.

Corporate Governance Reform

Corporate Governance developments continue to be subject to political and media scrutiny. This topic is kept under frequent review by your Board. In February, we responded to the Department of Business, Energy and Industrial Strategy's consultation on Corporate Governance Reform. We also noted the Financial Reporting Council's (FRC) intention to undertake a fundamental review of the UK Corporate Governance Code (the Code) and we will look to play an active role in the consultation process.

Board culture

In my role as Chairman, I am responsible for promoting a culture of openness and debate by facilitating the effective contribution of all directors in meetings. We welcome the FRC's report on 'Corporate Culture and the Role of Boards' and the re-emphasis on the importance of setting the standards at the top of the Company to permeate throughout the organisation. Culture formed the basis of this year's Board performance evaluation. You can read more about the process and outcomes of the evaluation on page 38.

Board changes

As previously announced, we will be saying goodbye to Ruth Kelly at the end of the 2017 AGM after nearly six years on the Board. Additionally, Steve Holliday stepped down from the Board in July last year and Nicola Shaw joined as Executive Director, UK the same month. More recently, we welcomed Pierre Dufour as a Non-executive Director in February. The Nominations Committee oversaw the rigorous selection process for Pierre's appointment. You can read more about this on page 47.

Sir Peter Gershon
Chairman

The Board has also undertaken site visits in Buffalo, US, participated in three strategy sessions and received training on the Market Abuse Regulations that came into force in July 2016 as a result of EU legislation.

Looking back. Examples of Board focus during the year included:

Areas of focus	Commentary
The sale of the Gas Distribution business	The sale of the UK Gas Distribution business has been a feature on every agenda this year and the Board has had input into all the key decisions. The Board has received updates from the project management team on a range of topics, including the transfer of employees to the new, separate company, negotiations with the pension trustees and progress against the project timetable. In September, an additional Board meeting was arranged to consider the first round bids and again in December to consider second round bids. The Board assessed the bids against a set of financial and non-financial criteria that evaluated the value of the bid but also the suitability of the bidder. Following discussion, the Board unanimously approved entering in to detailed discussions with the Consortium for the disposal of a majority interest in the UK Gas Distribution business and an announcement to the market was made. Discussions in March and April focused on the most appropriate way to return the proceeds of the sale to shareholders.
The future of the System Operator	The Board has been kept involved with the future of the ESO ahead of the joint announcement with the government and Ofgem of a more independent system operator (ISO) earlier this year. Updates on progress were received in April, June and November and the Board considered the proposed operator model and governance arrangements and whether the move to an ISO was in the interests of both customers and shareholders.
Cyber security	Cyber security has remained high on the Board agenda this year. In December the Board participated in a two-hour cyber training session delivered by an industry expert. Moving forward the Board will also receive triannual cyber management reports to monitor this risk.
The strategic partnership with Sunrun in the US	In line with the Code, the Board, and in particular, the Non-executive Directors should constructively challenge and help develop proposals on Strategy. Further to discussions in the July and September strategy sessions around distributed energy resources, the Board considered a proposal to form a strategic partnership with Sunrun in December. The proposal was carefully considered and approved.
European Energy and the implications of Brexit	Following the outcome of the EU Referendum, the Board discussed the implications for the Company at its June meeting. The issue was also considered in relation to the final investment decision for the IFA2 interconnector project with respect to access to the Internal Energy Market and any adverse effect on import tariffs. The Board will receive an update on a triannual basis so it can monitor the external political environment and take this into account in its strategic decision making.
US regulatory rate case filings	The Board has received regular updates on the Company's regulatory strategy and the progress of regulatory rate case filings in the US. Senior employees from the US jurisdictions have attended Board meetings to provide an overview of the political and stakeholder context in each area and to discuss the opportunities and challenges that exist.
Mid-period review	In August, Ofgem published initial proposals for a mid-period review into the price controls for RIIO-T1. The Board has been kept up to date with progress on the Company's response to the consultation and also market reaction to the review stages. The Board noted Ofgem's final decision in February and will continue to monitor the Company's engagement with the regulator.
Principal risks and viability	The Board is responsible for determining the nature and extent of the Company's principal risks. The Board discussed the Group risk profile in September and March and gave consideration to whether there were any changes to existing risks, any emerging risks, and whether the agreed principal risks were consistent with the Company's risk appetite levels. The impact of the principal risks was tested over the established assessment period of five years. The Board confirmed that it was satisfied with the assessment of the risks including the testing, management and mitigation. In May, the Audit Committee recommended the viability statement to the Board and it was approved.
Purpose, vision and strategy	In addition to time spent in Board meetings discussing strategy, the Board also participated in three separate strategy sessions this year. The first session focused on how the energy industry is evolving, the Company's strategic priorities and proposals for developing the Company's purpose, vision and values. The final two sessions considered the Company's capabilities and resources and also explored technology and innovation projects used internally and those available externally.
Site visits	As referenced last year, the Board meeting in September 2016 took place in Buffalo in the US. The Board members took this opportunity to explore the work undertaken by the Company in the local area such as the collaboration with the Buffalo Niagara Partnership and the Company's role in providing infrastructure for the developments in the River Bend area. The visit also allowed the Board to interact with various local stakeholders and employees and gain further insight in to the day-to-day operations of the Company.

Looking forward. The Board's focus for next year is expected to include:

- continued regular reviews of safety activities;
- UK and US operational business overviews;
- preparation for RIIO T-2;
- continued detailed review of our strategy for growth and its financing;
- the implications of Brexit on our activities;
- the future of the SO;
- the outcome of the US regulatory rate case filings, including upstate New York, Rhode Island and the Massachusetts gas companies;
- cyber security updates;
- innovation;
- the 2017 UK Winter Outlook;
- results and follow-up on the action planning from the Board and committee evaluation;
- updates on UK and US corporate governance and other policy developments; and
- results of the 2017 employee engagement survey.

Our Board

Key

A Audit Committee

F Finance Committee

N Nominations Committee

R Remuneration Committee
S Safety, Environment and Health Committee

(ch) Chairman of committee

Including National Grid Group plc

Tenure as at 31 March 2017

Charts and committee membership are as at 17 May 2017

Sir Peter Gershon CBE FREng (70)
Chairman N (ch)

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012

Tenure: 5 years

Career and skills: Sir Peter is a Fellow of the Royal Academy of Engineering and has had a varied career holding a number of senior positions across multiple industries. His previous appointments include Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. Sir Peter brings to his role of Chairman of the Board extensive general management, government and advisory experience as well as significant board level experience, including a seven-year tenure as Chairman of Tate and Lyle plc from which he retired from on 31 March 2017. Sir Peter currently holds external appointments as a Non-executive Chairman of the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust.

Skills and experience:
Ci, Cu, E, GM, G and I.

John Pettigrew FEI, FIET (48)
Chief Executive F

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016

Tenure: 3 years

Career and skills: John joined the Company in 1991 and progressed through a variety of roles before joining the Board as UK Executive Director in 2014. With over 25 years of varied experience at National Grid, his previous roles include Director of Engineering in the UK, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution and UK Chief Operating Officer from 2012 to 2014. John's extensive experience within the Company brings to the Board a deep understanding of the energy and utilities industry and operation within a regulatory environment as well as a full appreciation of the landscape National Grid works in.

Skills and experience:
E, G, GM, R and U.

Nicola Shaw CBE (47)
Executive Director, UK

Appointed: 1 July 2016

Tenure: Less than a year

Career and skills: Nicola joined the Board in July 2016 as Executive Director following her previous roles as CEO at HS1 plc from 2011 to 2016 and FirstGroup plc from 2005 to 2010. She was also an independent Non-executive Director of Aer Lingus Group plc until September 2015. Nicola's career, both in the UK and overseas, has included roles at the Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport and she is currently a Non-executive Director of Ellevio AB, a Swedish electricity distribution company. Nicola has a broad range of experience and strong track-record working with the UK Government, the European Commission and Parliament and industry Regulators as well as leading important infrastructure businesses which she brings to her role as UK Executive Director on the Board and a member of the Executive Committee.

Skills and experience:
G, I, R and U.

Andrew Bonfield (54)
Finance Director F

Appointed: 1 November 2010

Tenure: 6 years

Career and skills: Andrew is a chartered accountant with significant financial experience having previously held the position of Chief Financial Officer at Cadbury plc; he also spent five years as Executive Vice President & Chief Financial Officer at Bristol- Myers Squibb, an American pharmaceutical company. Andrew also has prior experience in the energy sector as he was Finance Director of BG Group plc from 2001 to 2002. He currently has an external appointment on the Kingfisher plc Board as a Non-executive Director. Andrew's varied financial experience across several different industries enables him to bring valued and technical expertise to Board meetings through thorough knowledge of the financial industry both in the UK and internationally.

Skills and experience:
Fi, I and U.

Dean Seavers (56)
Executive Director, US

Appointed: 1 April 2015

Tenure: 2 years

Career and skills: Dean began his career at the Ford Motor Company, moving to Tyco International Ltd where he held various senior management positions before joining General Electric Company/United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association and most recently he has been a lead network member at City Light Capital and President and Chief Executive of Red Hawk Fire & Security, LLC and currently holds an external appointment as a Board member of Red Hawk Fire & Security, LLC. Dean brings to the Board a wide range of financial and customer experience along with significant general management experience with a particular focus on change and performance improvement programmes.

Skills and experience:
Ci, Cu, Fi, GM and I.

Nora Mead Brownell (69)
Non-executive Director N, R, S

Independent

Appointed: 1 June 2012

Tenure: 4 years

Career and skills: A key individual in the US energy industry, Nora has significant experience gained in a variety of roles including Commissioner of the Pennsylvania Public Utility Commission and FERC and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc. She is currently a member of the Board of Spectra Energy Partners LP and the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions LLC. Through her Executive experience and her Non-executive directorships, Nora brings extensive experience in US Government and regulatory matters to the Board as well as significant expertise in the US utilities industry.

Skills and experience:
G, R and U.

Jonathan Dawson (65)
Non-executive Director F, N, R (ch)

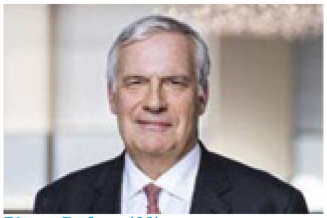
Independent

Appointed: 4 March 2013

Tenure: 4 years

Career and skills: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently Jonathan was Chairman of the Remuneration Committee and Senior Independent Director of Next plc. His extensive experience in the pensions and financial industries brings significant and in-depth understanding in remuneration and other financial matters to his role as Chairman of the Remuneration Committee and to the Board. Jonathan is currently Senior Independent Director and Chairman of the Audit & Risk Committee of Jardine Lloyd Thompson Group plc and Chairman and a founding partner of Penfida Limited.

Skills and experience:
B, Ci, Fi and P.



Pierre Dufour (62)
Non-executive Director [N, R, S]

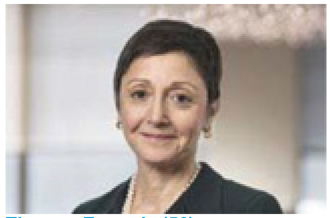
Independent

Appointed: 16 February 2017

Tenure: Less than a year

Career and skills: Pierre started his career at SNC Lavalin Group, a Canadian engineering, procurement and construction management business. He joined Air Liquide in 1997, later going on to roles such as Chief Executive of the US operations, Chairman of the Board of Air Liquide Canada and several different positions within Air Liquide where he had responsibility for North American operations, while also overseeing safety and industrial risk management and operations in South America, Africa and the Middle East. Pierre then became Senior Executive Vice President of the Air Liquide Group with responsibility for all Air Liquide group activities across The Americas, Middle East, Africa and Asia. Pierre brings significant safety and engineering knowledge to the Board and, in addition to his executive experience, Pierre is also a Non-executive Director of Archer Daniels Midland.

Skills and experience:
Cu, E, GM, I and Sa.



Therese Esperdy (56)
Non-executive Director [A, F (ch), N]

Independent

Appointed: 18 March 2014, and appointed to the Board of National Grid USA from 1 May 2015

Tenure: 3 years

Career and skills: Having started her banking career at Lehman Brothers, Therese joined Chase Securities in 1997 going on to hold a variety of senior roles at JP Morgan Chase & Co. These included roles as Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific at JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co. Most recently, Therese was appointed as a Non-executive Director on the Imperial Brands PLC Board on 1 July 2016. Therese has significant experience in the financial services industry where she has operated across international markets and as a result brings this experience and insight to the Board and to her role as Chairman of the Finance Committee.

Skills and experience:
B, Ci, Fi and I.

Paul Golby CBE FREng (66)
Non-executive Director [A, N, S (ch)]

Independent

Appointed: 1 February 2012

Tenure: 5 years

Career and skills: A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the energy and utilities industries and was an Executive Director of Clayhithe plc, before going on to join E.ON UK plc where he was Chief Executive and later Chairman. Paul also held previous appointments as a Non-executive Chairman of AEA Technology Group plc and Chairman of EngineeringUK. He is currently the Chairman of Costain Group plc, the UK National Air Traffic Services, the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology. Paul has significant experience in energy utilities, and within Government and regulatory industries with a specific background in safety and risk management which he brings to the Board and to his position as Chairman of the Safety, Environment and Health Committee.

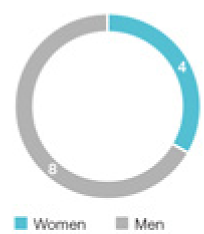
Skills and experience:
Cu, E, G, R, Sa and U.

Skills and experience key

B Banking
Ci City*
Cu Customer
E Engineering
Fi Finance
GM General Management
G Government
I International
P Pensions
R Regulation
Sa Safety
U Utilities

*Understanding the concerns of the investment community and listed company matters.

Board gender



Executive and Non-executive Directors

Non-executive Director tenure

Ruth Kelly (49)
Non-executive Director A, F, N

Independent

Appointed: 1 October 2011

Tenure: 5 years

Career and skills: Ruth began her career in Government where she held various senior roles, including Secretary of State for Transport, for Communities and Local Government, for Education and Skills and Financial Secretary to the Treasury. She was a senior executive at HSBC until August 2015 before moving to her current role as Pro Vice Chancellor at St Mary's University. Ruth is also Governor for the National Institute of Economic and Social Research and has also been a Non-executive Director on the Financial Conduct Authority Board since April 2016. She brings in-depth knowledge of Government and regulatory practice to the Board along with experience in banking and corporate finance.

Skills and experience:
B, Fi, G and R.

Mark Williamson (59)
Non-executive Director and Senior Independent Director A (ch), N, R

Independent

Appointed: 3 September 2012

Tenure: 4 years

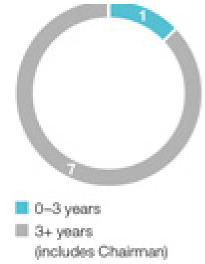
Career and skills: A chartered accountant, Mark has a strong financial background and significant, recent and relevant financial experience gained from roles as Chief Accountant and then Group Financial Controller of Simon Group plc, and Financial Controller and later Chief Financial Officer of International Power plc. Mark was also a Non-executive Director at Alent plc where he was Chairman of the Audit Committee and Senior Independent Director. As well as considerable financial experience, Mark brings a thorough knowledge of energy and regulatory matters and provides the Board with valuable insight in this area. Mark is currently Chairman of Imperial Brands PLC and will join the Board of Spectris plc as Non-executive Chairman with effect from 26 May 2017.

Skills and experience:
Ci, Fi, G, R and U.

Alison Kay (53)
Group General Counsel & Company Secretary

Appointed: 24 January 2013

Career and skills: Alison has undertaken several roles since joining National Grid in 1996 including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012. Before joining National Grid she was a corporate/ commercial solicitor in private practice. Alison is an experienced commercial lawyer bringing a wealth of practical advice and guidance to her current role. She has developed expertise in regulatory and contractual law and legal risk management through her experience at National Grid. She also brings rigour around corporate governance and reporting to the Board, gained partly through her current role and also in her previous role as Secretary to the boards of the subsidiary companies, National Grid Gas plc and National Grid Electricity Transmission plc. She has recently served as an observer on the Board of the Nuclear Decommissioning Authority.



Corporate Governance

Board composition

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

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 48.

This year we welcomed Nicola Shaw on to the Board as Executive Director, UK on 1 July 2016 and Pierre Dufour as a Non-executive Director on 16 February 2017. Steve Holliday stepped down from the Board with effect from 22 July 2016. Ruth Kelly will step down from the Board at the conclusion of the 2017 AGM.

Our Board and its committees

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

The committee structure, reporting and communication lines are set out in the diagram below and the role and responsibilities of the committees are set out in their respective terms of reference, available on our website. Committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of other topical and ad-hoc matters.

In addition to the vertical lines of reporting, the committees communicate and work together where required. For example, the Finance Committee and the Audit Committee both review the going concern assumptions and provide recommendations to the Board.

At Board committee meetings, items are discussed and, as appropriate, endorsed, approved or recommended to the Board, by the committee. Following Board committee meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points so the non-committee members are kept up to date with the work undertaken by each Board committee.

Below the Board committees are a number of management committees, including the Executive Committee. You can read more about some of the management committees, including the membership and operation of the Executive Committee, on page 49.

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

Key
Lines of reporting

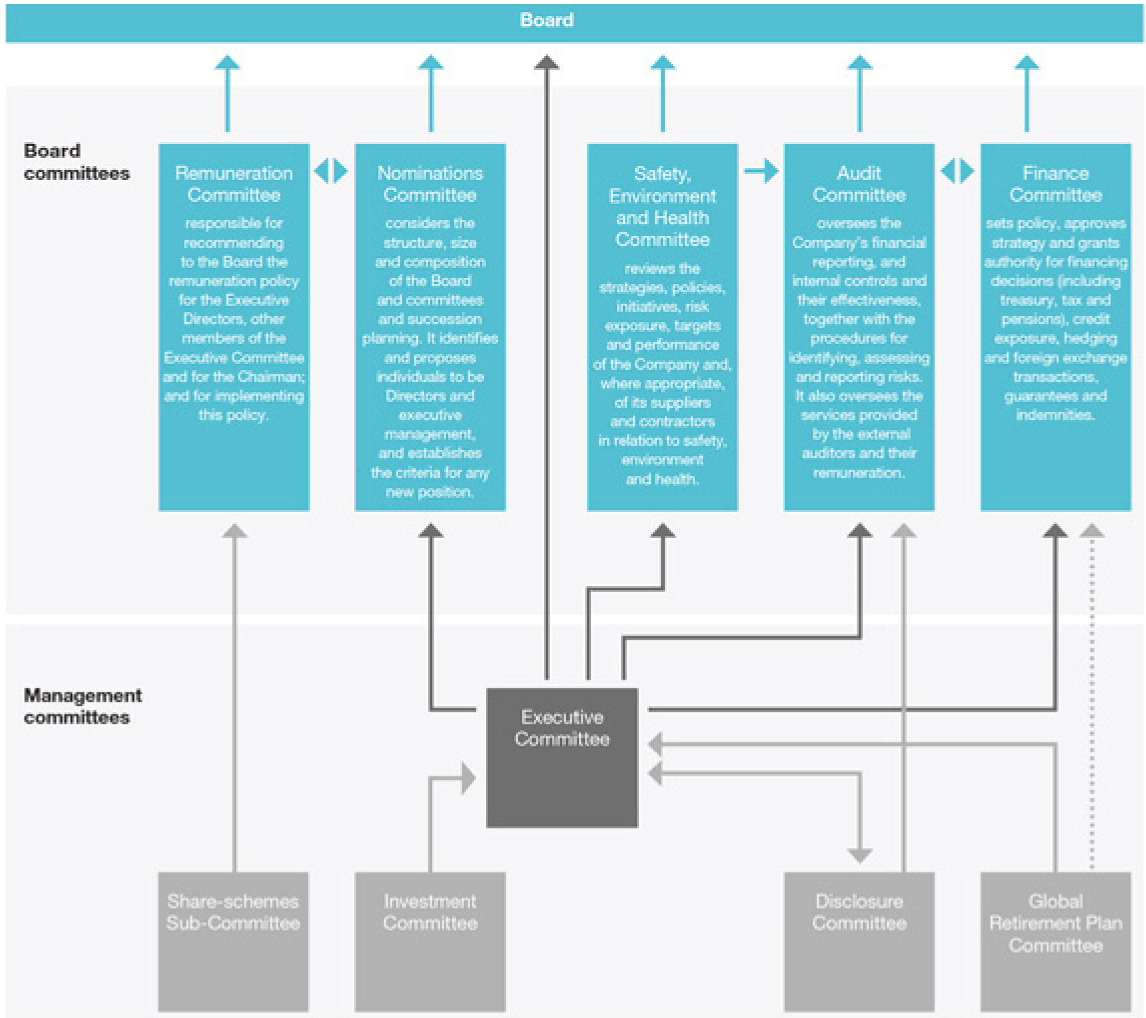
Board to Board committees

Executive Committee to Board/Board committees

Management committees to Executive Committee/Board committees

Lines of communication

Board and committee interactions


Board
Board committees
Remuneration Committee
responsible for recommending to the Board the remuneration policy for the Executive Directors, other members of the Executive Committee and for the Chairman; and for implementing this policy.
Nominations Committee
considers the structure, size and composition of the Board and committees and succession planning. It identifies and proposes individuals to be Directors and executive management, and establishes the criteria for any new position.
Safety, Environment and Health Committee
reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors in relation to safety, environment and health.
Audit Committee
oversees the Company's financial reporting, and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.
Finance Committee
sets policy, approves strategy and grants authority for financing decisions (including treasury, tax and pensions), credit exposure, hedging and foreign exchange transactions, guarantees and indemnities.
Management committees
Executive Committee
Share-schemes Sub-Committee
Investment Committee
Disclosure Committee
Global Retirement Plan Committee

Board and committee membership and attendance

The table below sets out the Board and committee attendance during the year to 31 March 2017. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman. Instances of non-attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances.

All instances of Board and committee meeting non-attendances throughout the year were due to ad-hoc meetings being arranged at short notice meaning members were unable to attend due to prior engagements.

The Board has determined that Mark Williamson, Chairman of the Audit Committee, has recent and relevant financial experience; is a suitably qualified audit committee financial expert within the meaning of the SEC requirements; and is independent within the meaning of the New York Stock Exchange listing rules.

Director	Board Meetings	Audit	Finance	Nominations	Remuneration	Safety, Environment & Health
Sir Peter Gershon	11 of 11	–	–	7 of 7	–	–
John Pettigrew	11 of 11	–	4 of 4	–	–	–
Andrew Bonfield	11 of 11	–	4 of 4	–	–	5 of 5
Dean Seavers	11 of 11	–	–	–	–	–
Nicola Shaw[1]	8 of 8	–	–	–	–	–
Nora Mead Brownell	11 of 11	–	–	7 of 7	8 of 8	5 of 5
Jonathan Dawson	10 of 11	–	3 of 4	6 of 7	8 of 8	–
Pierre Dufour[2]	1 of 1	–	–	–	1 of 1	0 of 1
Therese Esperdy	11 of 11	6 of 6	4 of 4	7 of 7	–	–
Paul Golby	11 of 11	5 of 6	–	6 of 7	5 of 8	5 of 5
Ruth Kelly	11 of 11	6 of 6	4 of 4	7 of 7	–	–
Mark Williamson	11 of 11	6 of 6	–	7 of 7	8 of 8	–
Steve Holliday[3]	3 of 3	–	–	–	–	–

Attendance notes
1. Nicola Shaw was appointed as Executive Director, UK with effect from 1 July 2016. 2. Pierre Dufour was appointed as a Non-executive Director with effect from 16 February 2017. 3. Steve Holliday stepped down from the Board with effect from 22 July 2016.

In focus

365

meetings held with institutional and private investors during the year in 11 countries

Further detail on www.nationalgrid.com/investors

Directors' induction programme

Following new appointments to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arrange a comprehensive induction programme. The programme is tailored based on experience and background and the requirements of the role.

Following Nicola Shaw's appointment to the Board in July 2016 she has undertaken a thorough tailored induction which has included a number of site visits both in the UK and the US, along with meetings with all of the Company's Directors and senior executives.

Pierre Dufour was appointed to the Board in February 2017 and is undergoing a structured induction which will include meetings with senior leaders from across the Company. He will also undertake visits to some of our operational sites to help build his understanding of the Company. Pierre's induction is ongoing and will be reviewed by the Chairman to ensure that it is stretching and appropriate. Consideration is given to committee appointments and where relevant, tailored training can be undertaken.

Director development and training

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

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and

Updates on corporate governance and regulatory matters are also provided at Board meetings along with details of training and development opportunities available to our Directors. Additionally, the Non-executive Directors are expected to visit at least one operational site annually. In September, the Board visited one of our US sites in Buffalo, New York to gain an insight into one area of our US business operations.

Investor engagement

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

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts, providing the opportunity for our current and potential investors to meet with executive and operational management.

This includes:

- meetings, presentations and webinars;
- attendance at investor conferences across the world;
- holding road shows in major investor centres, mainly in the UK, Europe and the US; and
- offering the opportunity for individual stewardship meetings.

briefings on specific aspects of the Company's activities. The Board has participated in a cyber training session, see page 32 for more details. The Board also undertook training on the new EU Market Abuse Regulations which came into force in July 2016 to ensure that they understood the new obligations and reporting requirements.

In the last year, our engagement programme has focused on clarifying our Group growth expectations and updating investors on the progress of our rate case filings in the US and the proposed sale of the majority interest in our UK Gas

Distribution business. We have also been explaining to investors how we expect the Company to continue to perform against its regulatory contracts in both the UK and US.

In September 2016 we arranged a seminar in London to provide institutional investors and research analysts with an opportunity to meet some of the leaders of businesses within our Other Activities such as Property, Grain LNG, Interconnectors and Metering, in addition to a presentation on US business development. The event was led by Andrew Bonfield and designed to provide an understanding of the current performance of this portfolio of businesses and their future outlook. A copy of the presentation and associated materials are available in the Investors section of our website.

In addition to these engagement activities, we will also be holding a stewardship meeting in July this year. The event is designed to update major investors on our activities over the year and future plans. It will also provide the opportunity for attendees to ask questions and meet members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views and concerns.

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

Additionally, each year, the Board receives the results of an independent audit of investor perceptions. Interviews are carried out with investors to establish their views on the performance of the business and management. The findings and recommendations of the audit are then discussed by the Board.

Debt investors
Over the last year senior group treasury representatives have met debt investors in Europe, Canada and the US to discuss various topics such as our full-year results and upcoming US rate case filings. We also met with debt investors in London, Edinburgh, Amsterdam and Paris in September 2016 to market the bonds issued for the new Gas Distribution company.

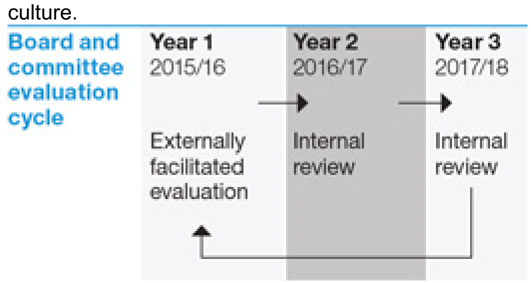
We also communicated with our debt investors through regular announcements and the debt investor section of our website which contains bond information, credit ratings and materials relating to the subsidiary year-end reports, and information about our long-term debt maturity profile so investors can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

Individual shareholders
Engagement with individual shareholders, who represent more than 96% of the total number of shareholders on our share register, is led by the Group General Counsel & Company Secretary.

Shareholders are invited to learn more about the Company through our shareholder networking programme. The programme includes visits to UK operational sites and presentations by senior managers and employees over two days. UK resident shareholders can apply to take part in this programme via the Investors section of our website.

For information on the 2017 Annual General Meeting, please see page 52.

Board and committee evaluation
This was the second year of our three-year performance cycle, as shown in the diagram below. We undertook an internal Board performance evaluation, led by Sir Peter, and focused on the Company's culture, as well as the role of the Board in shaping, monitoring and overseeing the culture.



Board members completed a structured questionnaire with a series of open questions designed to assess how the Board effectively sets the 'tone from the top' and determines how effectively this is cascaded throughout the Company. The questions asked covered the following areas:

- clarity of the Company's purpose and values;
- effectiveness of the Board's oversight, shaping and monitoring of the Company's culture;
- the balance and structure of Board governance;
- the ability of the Board to hold management accountable for operating the business day-to-day in alignment with the Company's purpose and values;
- how the right tone in the boardroom can be set to reinforce the Company's purpose and culture and to empower Board members to raise concerns; and
- ascertaining how the Company's reward structure encourages behaviours consistent with the Company's culture.

The Chairman then met with each Board member to discuss their responses to the questionnaire as well as their individual performance throughout the year.

The outcome of the Board evaluation was reported to the Board in April. The Board discussed the findings of this year's evaluation and agreed a number of actions for the coming year as set out opposite.

The Board also discussed its performance generally and agreed that the Board had worked well together as a unit, discharged its duties and responsibilities effectively, and worked effectively with the Board committees.

Committee evaluation
An evaluation of committee performance was also conducted by the chairman of each of the Board committees. The process broadly followed that conducted by the Board with each committee using their own set of open questions.

Actions were identified as appropriate and agreement reached that the committees continued to operate effectively. Progress against the action plans will be monitored throughout the year by the respective committee and the Board.

Actions for 2017/18
- Develop a common definition of 'culture' for the Board and Executive Committee
  Responsibility: Chief Executive/Group General Counsel & Company Secretary/Human Resources

- Determine the Board's role in guiding the cultural destination of the Company
  Responsibility: Chairman/Chief Executive/ Group General Counsel & Company Secretary/ Human Resources/Corporate Affairs

- Develop a method for the Board to track culture within National Grid
  Responsibility: Executive Directors/Human Resources
- Assist with the establishment of a desired culture throughout the National Grid businesses
  Responsibility: Executive Directors/Group General Counsel & Company Secretary

Individual performance

As noted above, the Chairman met with each director individually to discuss their contribution and performance over the year.

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman. It was concluded that the Chairman showed effective leadership of the Board and his actions continued to influence the Board and wider organisation. Mark Williamson discussed the feedback and development opportunities with the Chairman.

Progress against actions from 2015/16

Progress against the actions from last year's externally facilitated evaluation has been monitored by the Group General Counsel & Company Secretary and the Chairman throughout the year and an update on progress was provided at the April 2017 Board meeting. A commentary against each action from last year's review is set out below. Progress against the actions from last year's Board Committee evaluation has also been monitored throughout the year.

Update on actions from last year

Area	Actions	Commentary
Board papers	Give a renewed push to improve Board and committee papers, including the enforcement of standards of papers and timely submissions. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary/Executive Directors	The Board and committee reporting templates and the sequencing of management reporting were reviewed and changes approved by the Executive Committee and Board. Enhancements were made to the Chief Executive's Board report and new Key Performance Indicators and reporting dashboards were added to papers where appropriate. The Chairman, Chief Executive and Group General Counsel & Company Secretary review the Board's forward business schedule on a bi-annual basis to ensure the Board is considering the right matters in order for it to carry out its role effectively. Additionally, the Group General Counsel & Company Secretary continues to work with the management team to enhance reporting standards, Executive ownership of papers, and the timeliness of paper submissions.
Bringing out strategic themes	Bring out strategic themes more clearly in the Board papers, pre-read papers and the Chief Executive's report. **Responsibility:** Chief Executive/Group General Counsel & Company Secretary	In order to more clearly bring out strategic themes in Board materials, the Chief Executive's Board report was re-formatted to emphasise the key areas of focus for the Chief Executive. The Chief Executive also continues to review Board pre-read materials to ensure strategic themes are clearly articulated. A review was also undertaken of the format of the Board agenda to identify any areas for improvements. Following review, the Board agenda format was confirmed as fit for purpose.
Strategic proposals	The Chairman will discuss with the Non-executive Directors the strategy items on the draft agenda for the next following meeting and articulate the views from the Non-executive Directors as to what is required at the Board meeting including any questions that need answering. **Responsibility:** Chairman	In order to identify key focus areas for strategic discussions, the Non-executive Directors have been invited to review the items proposed for discussion at the Board Strategy session to be held in July 2017. As noted above, the Chairman, Chief Executive and Group General Counsel & Company Secretary review the Board's forward business schedule on a bi-annual basis to ensure the Board is considering the right strategic topics. Executive Committee members attend Board dinners in order to achieve alignment between the Board and the Executive management team on strategic matters.
Risk and risk management	Integrate risk more effectively into strategy development and planning. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary/Executive Directors	Executive Directors present the risks and mitigations relating to their own areas at Board meetings as appropriate. It is intended that a Company Risk Framework will be finalised and implemented during the 2017/18 financial year. Additionally, an externally facilitated review of risk appetite is to be undertaken during 2017/18 to identify how risk appetite can better inform decision-making in the future and how it is integrated into Board and committee reporting.

Board composition	Continue to consider the skills and capabilities needed on the Board for executing the Company's future strategy. **Responsibility:** Chairman	The Nominations Committee aims to keep the Board fresh with a diversity of skill sets. Therefore, during the year a formal process was undertaken by the Nominations Committee to find an appropriate addition to the Board of a new Non-executive Director, to strengthen the experience and skills on the Board and its committees. Pierre Dufour was appointed to the Board with effect from 16 February 2017. A detailed review of the Board skills matrix will be undertaken during the 2017/18 financial year to assess the skills and capabilities required on the Board in the future.
People	Review whether there is enough focus on people on the Board agenda. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary	The Nominations Committee undertook a review of Executive and senior succession planning and talent during the year. In addition, senior leaders in the Company's management team have been invited to Board dinners, providing the Board with further opportunities to spend more time with the Company's management team.

Mark Williamson
Committee chairman

Audit Committee

Review of the year

This report provides an insight into the work of the Audit Committee over the year in relation to the UK and US businesses, the external auditors, and our role overseeing the Company's internal assurance functions, as well as the significant issues relating to the financial statements which were debated by the Committee during the year.

UK business review

A substantial proportion of the Committee's time has been spent in relation to the sale of a majority interest in the UK Gas Distribution business.

The accounting for the transaction is complex and judgemental, and it follows that the reporting of the Group's financial performance was more complex than usual, with the presentation of the UK Gas Distribution results as discontinued operations in the current and prior periods, additional subtotals in the income statement, and revised and additional disclosure notes, amongst other things.

The Committee has been focused on the impact on financial processes and systems as well as the staff within the UK finance function. In November, the Committee received a detailed update and briefing on the risks and responses identified by the UK finance team in relation to the business separation activities required in order to prepare the business for the sale.

The Committee has received regular updates on the progress of the sale and has challenged and monitored management's judgements and estimates in relation to the financial statements. You can read more about this on page 43.

The Committee met in addition to its usual meetings in April to consider the interim accounts of National Grid plc, which were required in support of the declaration of the special dividend. The Committee's role in this part of the sale of the UK Gas Distribution business is set out in the Committee in action box set out above right.

US business review

We have seen a steady year of progress and improvements in the financial control environment in the US.

In June 2016 and January 2017, the Committee met in addition to its usual meetings to receive in-depth updates from the US finance team on progress against the initiatives underpinning the US finance team transformation plan and the improvements in the US financial controls environment.

Our US finance team have also demonstrated its ability to support the wider business as part of the rate case filings for Massachusetts, New York and Long Island, alongside business-as-usual activities.

Auditor transition

In May 2017, PwC completed their final audit for the Group for the year ended 31 March 2017. We thank PwC for all their hard work as our auditors since the inception of National Grid plc.

Deloitte will take office as the Company's auditors for the year ending 31 March 2018, subject to shareholder approval at the 2017 AGM. We look forward to working with Deloitte and building constructive working relationships. Further details of the auditor transition are set out on page 44.

Looking forward

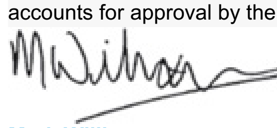
The Committee will be receiving regular updates, as appropriate, on the Group finance team's preparations for and the impact of the new accounting standards which will become effective in the next couple of years – IFRS 9 financial instruments, IFRS 15 revenue from contracts and IFRS 16 leases.

The Committee in action

Interim accounts

In order to declare the special dividend following the sale of UK Gas Distribution, management was required to demonstrate that sufficient realised profits were available for distribution as at 31 March 2017 in the books of the parent company. As the balance sheet of the Company as at 31 March 2016 showed insufficient reserves, a set of unaudited interim accounts for National Grid plc were prepared on a stand-alone basis for the year to 31 March 2017 specifically for this purpose, as required by UK company law.

The Committee met in April 2017 to consider the draft interim accounts, and received a paper from management and advisors summarising the approach to reserves management, the level of profits available for distribution after these activities, and the key process and assurance activities undertaken to ensure that the interim accounts were free from material misstatement. Following due consideration, the Committee recommended the interim accounts for approval by the Board.



Mark Williamson
Committee chairman

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance.

Following the transition to a new jurisdictionally focused operating model in 2016 and supported by a strengthened US finance leadership team, the US business has continued to enhance the processes and controls within the financial controls environment and has successfully delivered the US finance transformation plan.

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Examples of Committee focus during the year included:

Areas of focus	Commentary
Viability statement	The viability statement requires the Board to confirm that it has assessed the Company's principal risks and viability. At its September meeting as part of its bi-annual review of risk, the Board considered the Company's principal risks. The impact of these risks over the assessment period was tested to determine whether or not there was a reasonable expectation that the Company would be able to continue to operate and meet its liabilities as they fall due during that period. This review then informed the wording of the viability statement in the Annual Report and Accounts. The Committee considered the viability statement to be included in the Annual Report and Accounts at its meetings in March and May 2017 and recommended the statement to the Board for approval at its May meeting. You can find the viability statement on page 19.
Fair, balanced and understandable	The Committee considered the requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and confirmed this view to the Board.
Financial reporting	The Committee monitors the integrity of the Group's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. In May 2016, the Committee approved a framework for exceptional items which sets out the methodology for determining whether items of income and expense should be deemed exceptional. This did not represent a change in accounting policy but codified the approach adopted by management in the past. The framework sets out a three-stage process: consideration of the nature of the event, financial materiality, and the facts and circumstances. This framework was used by management to consider the presentation of exceptional items in relation to the UK Gas Distribution business sale transaction costs, environmental provisions and UK deferred tax credit.
External auditor independence and performance	Sarbanes-Oxley legislation (SOX) and the FRC's UK Corporate Governance Code supported by its Guidance on Audit Committees set out the requirements and expectations for the role of audit committees in actively monitoring and reviewing the external auditors' independence. In May 2016, the Committee considered an assessment by the Corporate Audit team of controls in place to ensure that our external auditor, PwC, is independent from National Grid. The controls testing did not find any significant items that would impact auditor objectivity and independence. The Committee also considered a revised Code for Recruitment of Employees from the External Auditor (Recruitment Code) which exists to help maintain the independence of the external audit. The revisions proposed strengthened the Recruitment Code by clarifying which roles within the Company could be considered financial reporting oversight roles. The proposed changes were consistent with the final draft of the FRC's Revised Ethical Standard 2016 issued in April 2016. The Committee also considered and approved amendments to the Company's policy on the provision of non-audit services by the auditor to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. See page 43 for more details. Further details of the transition to Deloitte and the process undertaken to ensure that they were considered to be independent from 1 January 2017 are included on page 44.
Going concern statement	At its May meeting, the Committee considered the Group's short-term liquidity and capital and considered it appropriate to adopt the going concern basis in the financial statements. The Board considered and approved the Committee's recommendation at its May meeting. The Company's going concern statement is set out on page 92, note 1A.
Disclosure Committee reports	When reviewing the half- and full-year announcements, the Committee considers reports of the Disclosure Committee. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee. See page 49 for more information on the role of the Disclosure Committee.
Sarbanes-Oxley Act 2002 testing and attestations	The Committee receives regular updates on the status of testing and considers the impact of deficiencies reported in the past year. See page 18 for the Company's statement on the effectiveness of internal control over financial reporting. In September, alongside the SOX compliance update, the Committee received an update on the launch of a SOX refresh programme which would review the overall Group SOX approach following significant business change with the sale of the UK Gas Distribution business. The Committee also received updates on the SOX control findings in March and May in support of the year-end accounts, as well as an update on the SOX refresh programme.

Examples of Committee focus during the year included:

Areas of focus	Commentary
Corporate Audit	The Committee received regular controls updates from the Corporate Audit team. Management actions on audit findings have continued to be a focus at Executive meetings resulting in greater visibility of audit findings, increased ownership of actions and greater engagement by senior management. In accordance with best practice, the Corporate Audit Charter was reviewed against the Institute of Internal Auditors (IIA) international standards and the IIA model charter. No changes to the charter were proposed. See page 44 for more details on the work of the Corporate Audit team including the outcome of the recent review by the IIA.
Risk management	The Committee has been delegated responsibility by the Board for monitoring and assessing the effectiveness of our risk management processes. During the year, the Committee received reports to be considered by the Board on risk process developments to enable the Committee to keep fully appraised of changes in the risk profile of the Company and to allow it to monitor the management of risk throughout the year. The Committee continues to monitor the effectiveness of the risk management and internal control processes during the year and reports to the Board on the outcome of its annual review which covers all material controls, including financial, operational and compliance controls. You can read more about our risk management process and the review of effectiveness on pages 15 to 18. Details of our internal control systems, including those relating to the financial reporting process, can be found on pages 18 and 180.
Cyber security risk management	An update on the status of our cyber security risk management process and cyber security strategy was presented to the Committee in September 2016 and March 2017. The Committee noted that following an in-depth assessment of National Grid's cyber security maturity, a revised cyber security strategy was developed. The Committee also noted that during the development of the new strategy, Corporate Audit continued to provide assurance in relation to cyber security risk through delivery of a balanced portfolio of planned audits.
Compliance management	The Committee receives bi-annual reports on compliance with external legal obligations and regulatory commitments. These reports also updated the Committee on progress against the compliance improvement programme initiated in 2015. The Committee noted that significant progress had been made in strengthening the existing control framework with increased engagement and responsibility for actions improving our overall compliance performance. The Committee also requested that a review of the assurance framework against best practice be undertaken to identify if there were additional areas of assurance that needed to be covered. The benchmarking exercise indicated that there were no significant areas not covered by the framework and that the approach was consistent with the peer group reviewed. Improvements identified would be incorporated into the assurance programme to help strengthen our assurance framework.
Business separation compliance	National Grid Gas's Gas Transportation Licences require business separation between UK Gas Transmission and UK Gas Distribution to prevent any unfair advantage being obtained by our UK Gas Distribution business over other independent distribution networks. Business separation compliance reports are submitted to the Committee twice a year, in May and November. The Committee noted that the Business Separation Compliance Officer was actively engaged in the sale of the UK Gas Distribution business with regard to the review of business separation licence obligations.
Business conduct	The Committee receives a bi-annual ethics and business conduct report so that it can monitor the management and mitigation of business conduct issues as part of the wider control framework. The Committee reviews the confidential reporting procedures and whistleblowing procedures annually to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases. The Committee also receives annual reports on the Company's anti-bribery procedures and reviewed their adequacy.
Committee performance evaluation	The Committee received updates on the action plan agreed following the 2015/16 Committee performance evaluation at its November 2016 and May 2017 meetings and noted the progress made against the actions identified. The 2016/17 Board and committee evaluation was conducted internally, see page 38 for more details. The recommended actions for the Audit Committee were considered by the Committee in May and an action plan agreed.

Significant issues

The most significant issues the Committee considered in relation to the financial statements concerned the accounting implications of the sale of a majority interest in the UK Gas Distribution business and the US financial control environment, including plant accounting.

In addition to commentary in these areas, the independent auditors' report (pages 75 to 82) also includes other areas of focus, including the accuracy and valuation of treasury derivative transactions, accounting for net pension obligations, revenue recognition, and valuation of environmental provisions which were also considered by the Committee during the year.

Accounting for the sale of the UK Gas Distribution business

The key accounting implications subject to detailed consideration by the Committee comprised:

- the point at which the business met the criteria to be classified as 'held for sale';
- the classification of costs between continuing and discontinued operations, (including exceptional and financing costs); and
- the accounting applied in respect of the retained 39% interest in the new separate business, including:
  - the classification of the retained interest as an associate, reflecting significant influence exercised by the Group through its equity interest; and
  - the assessment of the fair value of the retained interest on acquisition.

'Held for sale'

IFRS 5 states that an asset is considered as held for sale provided two conditions are met: it must be available for immediate sale in its present condition and its sale must be highly probable.

The Committee challenged management on the identification of the point at which the UK Gas Distribution business sale transaction became highly probable. Having considered evidence concerning the receipt and evaluation of bids as well as progress on the business separation activities, the Committee concurred with management's judgement that the sale was not deemed to be highly probable until shortly prior to the announcement on 8 December 2016. The resulting impact on depreciation and amortisation is set out in note 9.

Classification of costs

In relation to the classification of costs between continuing and discontinued operations, the Committee carefully considered management's approach to the contractual and other

The retained interest

The Committee considered the judgements presented by management as regards the 'fair value' of the retained interest, of the UK Gas Distribution business. The Committee concurred with management that on the basis of evidence of recent and historic comparable transactions, a discount to the price paid by the Consortium for control should be reflected in the determination of the fair value of the retained interest. Refer to note 15 for further details.

The Committee also considered the accounting implications of the Further Acquisition Agreement relating to the option for the Consortium to acquire a further 14% interest in the UK Gas Distribution business, and the determination as to whether or not the contract contains an embedded derivative.

US financial control environment

The Committee has continued to devote a significant amount of time to reviewing progress made by management to remediate control deficiencies identified during 2015/16, in the US financial controls environment.

The Committee received updates on progress made by management against the measures taken and timetable to remediate the US financial control deficiencies. At year end the Committee was pleased to note that the majority of the control deficiencies identified had been remediated. Management are confident that the remaining control weaknesses in relation to plant accounting will be remediated in 2017/18.

As part of plant accounting, the Committee received regular updates in respect of a project to close out aged work orders addressing an issue identified during the 2015/16 external audit.

The Committee also received updates on the status of the US finance organisational design programme. Corporate Audit provided support during the transition to the new organisational design to ensure that the integrity of the US control environment was maintained.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the proposed external audit plan, the approval of fees, and makes recommendations to the Board on their appointment or reappointment. Details of total remuneration paid to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 100.

Auditor appointment

Following the audit tender, the Committee has recommended to the Board the appointment of Deloitte as auditors for the year ending 31 March 2018. A resolution to appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2017 AGM.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors;
- ensuring that employees of the external auditors who have worked on the audit in the past one year (two years for a partner of the audit team) are not appointed to roles with financial reporting oversight within the Company in line with our internal code;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant;
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditor;
- the rotation of the lead engagement partner at least every five years (a new lead engagement partner was appointed for the 2015/16 financial year);
- PwC's internal independence rules and processes, which have been designed to exceed professional standards and focus on both personal independence and scope of services;
- independent reporting lines from PwC to the Committee and the opportunity to meet with the Committee privately; and
- an annual review by the Committee of the structures, policies and practices in place to make sure the external auditors' objectivity and independence is maintained.

During the year, the Committee considered and approved changes to the Company's policy on the provision of non-audit services by the auditor to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. The key changes made were to update the list of prohibited services, principally in respect of tax, and the introduction of a cap on the financial value of non-audit services to 70% of the average annual audit fees paid in the last three financial years. The cap will be implemented once we have three years of history of fees charged by Deloitte, and so will be effective for the financial year ending in March 2021.

arrangements put in place at the point of the business separation for the purposes of determining an appropriate allocation of costs throughout 2016/17 and prior periods. The Committee concurred with management’s analysis, and in particular the judgements described in note 9 concerning interest costs (including liability costs).

Consistent with prior years, an annual review was conducted by the Committee of the level and make-up of the external audit and non-audit fees and the effectiveness, independence and objectivity of PwC. Following this process, the Committee was satisfied with the effectiveness, independence and objectivity of PwC and recommended to the Board their reappointment for the year ended 31 March 2017 at the 2016 AGM.

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

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

External audit transition arrangements
As described above, subject to shareholder approval of their appointment at the 2017 AGM, Deloitte will succeed PwC as the Company's auditor for the year ending 31 March 2018.

Auditor independence
The Company and Deloitte planned for the firm to be independent in line with SEC requirements with effect from 1 January 2017. This date was chosen as the most appropriate date for Deloitte to start to 'shadow' the activities of PwC in the 2016/17 year-end audit.

In order for Deloitte to be considered independent with effect from 1 January 2017, non-audit services provided by the firm were curtailed in a staged and orderly fashion over the period between November 2015 and December 2016. Regular updates were provided to the Audit Committee on the status of ongoing non-audit services throughout this period and all services ongoing as at 1 January 2017 were re-approved by the Committee as at that date. With effect from this date, all non-audit services are subject to the same protocols and policies as those applied in respect of PwC.

In addition to the SEC requirements, Deloitte became subject to EU independence requirements with effect from 1 April 2017, being the first day of the year ending 31 March 2018, adding certain further restrictions on non-audit services (principally taxation).

Other audit transition activities
The Committee welcomed Deloitte LLP to the January, March, April and May 2017 Committee meetings to shadow PwC as part of the transition process. Deloitte were also granted access to management and key documents in the UK and US to assist in their transition activities.

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

The Committee has delegated approval of services under this threshold to the Finance Director. A list of all approved non-audit work requests is presented to the Committee quarterly, as well as annually in aggregate to ensure the Committee is aware of all non-audit services provided.

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

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

Total non-audit services provided by PwC during the year ended 31 March 2017 were £17.3 million (2016: £8.9 million), representing 87% (2016: 63%) of total audit and audit-related fees (see note 3(e)). £10 million of the non-audit fees related to work performed by PwC relating to the disposal of the UK Gas Distribution business, including a vendor due diligence assignment, and work on the separation of the business and its support functions.

Both these projects were discussed by the Committee and approved in advance by the Chairman of the Audit Committee prior to work commencing. The Committee concluded that the appointment of PwC would allow the Group to realise significant benefit through the utilisation of PwC's accumulated knowledge concerning the key financial reporting and IT systems, as well as their knowledge of the Gas Distribution business and the UK operations more generally.

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

Non-audit services provided by PwC in the year included tax compliance services in territories other than the US (£0.4 million), the significant majority of which related to the UK. management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management.

Non-audit services provided by Deloitte
As set out above, Deloitte became subject to the Company's policy on the provision of non-audit services with effect from 1 January 2017.

Internal (corporate) audit
The corporate audit function provides independent, objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics. Following its most recent review, Corporate Audit was given the highest rating – Generally Conforms by the IIA on Standards and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions.

In order to meet the objectives set out in the Corporate Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based and cyclical reviews, together with a small amount of work that is mandated, typically by US regulators. The audit plan is agile and regularly reviewed to prioritise audits relevant to the needs of and to reflect evolving risks and changes to the business. The audit plan is now aligned between General Audit, Safety, Environment and Health and Information Systems audits allowing us to manage global and integrated audit opportunities. The audit plan was also reviewed and updated to reflect the audits attributed to the UK Gas Distribution business.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is monitored throughout the year.
The Committee is responsible for the appointment and removal of the Head of Corporate Audit. The Committee met privately

The Committee considered that tax compliance services were most efficiently provided by the external auditors, as much of the information used in preparing computations and returns was derived from audited financial information. In order to maintain the external auditors' independence and objectivity,

with the Head of Corporate Audit during the year.

Therese Esperdy
Committee chairman

Finance Committee

Review of the year

The financing and other related aspects of the Company's sale of a majority interest in the UK Gas Distribution business remained a key area of focus for the Committee throughout 2016/17. The Committee also considered the impact of the sale on our retained business, including financing, insurance arrangements, liquidity management and pension funding.

The Committee oversaw several major aspects of the Gas Distribution sale process, including the sectionalisation of the National Grid UK Pension Scheme. This was a complex project that ran alongside the sale process, ensuring the continued protection of all scheme members' benefits. See the Committee in action box opposite for more details of the Committee's involvement.

During 2016/17, the Committee was briefed on funding activities in our US business, specifically the long-term bond issuance programme for our downstate New York gas businesses and our Massachusetts electricity operations business. The year saw the initial debt financing of the Company's New York Transco joint venture. The completion of our first two Export Credit arrangements in relation to our new joint venture for our Norwegian interconnector represented another major achievement for the treasury team.

During the year, the Committee monitored the execution of management's readiness plans in relation to the potential short-term market impacts of the Brexit referendum. The eventual market movements were well within our contingency planning, although the ever-changing macroeconomic and political environment remains a key focus for the Committee.

The Committee assessed the appropriateness of National Grid's balance sheet hedging policy to determine whether the current policy continued to effectively manage the foreign exchange translation risk associated with our US investments. Following review, the Committee approved changes to the policy and agreed an implementation plan for the agreed policy change.

Looking forward to 2017/18, we will continue to focus on the financing strategy for the reshaped Group following the sale of the majority interest in the UK Gas Distribution business. This, together with funding the ongoing capex programme in our US business remain the major focus areas for the treasury team.

We will also assess, with our tax team, the potential impact of anticipated US tax policy changes, as more details continue to emerge from the new administration in the US following the Presidential election.

Examples of other key matters the Committee considered during the year included:

- funding requirements and financing for the business plan;
- setting and reviewing treasury policies;
- counterparty risk policy;
- foreign exchange and interest rate risk management;
- treasury performance updates;
- UK and US tax updates;
- update on US energy procurement activities and electricity and gas trading activities in the UK;
- the triennial valuation of the National Grid Electricity Group of the Electricity Supply Pension Scheme;
- the draft going concern statement for the half- and full-year results prior to consideration by the Board; and
- update on US post-retirement employee benefits plans.

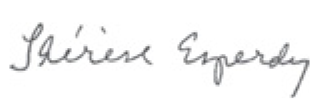
The Committee in action – the sale of the UK Gas Distribution business

2016/17 saw a range of work streams across the financing and related aspects of the transaction. The Committee reviewed the planning for these, assessing various different options before overseeing the execution and approving related policy changes.

The Committee oversaw activities across a range of workstreams including:

- restructuring the existing UK debt portfolio;
- financing the new standalone UK Gas Distribution business prior to sale;
- sectionalisation of the National Grid UK Pension Scheme;
- establishing a new treasury team and banking group and implementing associated systems and committed lending facilities;
- establishing initial credit ratings for the new business and the retained Group;
- liaison with HMRC around the detailed transaction steps; and
- options for implementing a structure to enable additional debt leverage through the sale process.

On completion of the sale, the Committee reviewed the proposals for investing the proceeds of the sale (in excess of £5 billion) ensuring the Group's counterparty risk policies were appropriately managed.



We continued to keep the Company's insurance strategy under review. Specific focus areas during 2016/17 included the impact of the UK Gas Distribution business sale on our ongoing captive insurance programme together with a review of management's proposals to consider the placement of cyber insurance across National Grid's operations. Additionally, the Committee considered the Company's approach to the insuring of construction risks of interconnector projects, a particularly bespoke insurance market.

Therese Esperdy
Committee chairman

Paul Golby
Committee chairman

Safety, Environment and Health Committee

Review of the year

In February, we welcomed Pierre Dufour to the Safety, Environment and Health Committee. He brings considerable experience as an engineer and in safety, industrial risk management and operations. Last month Andrew Bonfield stepped down from the Committee, having been a member for three years. His contribution to the Committee, as well as his chairmanship of the Engineering Assurance Committee (EAC), has been extensive.

Over the year, the Committee has seen the Company's safety performance remain in line with last year with a Group employee lost time injury frequency rate of 0.10.

However, this good performance must be viewed in the context of the death in the UK last November of an employee working in our Electricity Transmission business, as referred to in the Chief Executive's review on page 6. The Committee has spent time with the business seeking to understand the circumstances and causes of this fatality as well as the actions taken by the Company to ensure lessons are learnt. It will continue to receive updates as investigations proceed.

Road traffic collisions have reduced in both the UK and US following an increased programme of training for employees, although the level is still above target in the US. Cable strikes (a UK Gas Distribution measure) have reduced.

The US business is currently focusing on switching errors, which remain at an unsatisfactory level. An external consultant is currently reviewing relevant incidents from a human factors perspective and will be advising on ways to improve our training, processes and procedures in this respect.

across the UK and US gas and electricity businesses, focusing in particular on asset data risk and its ongoing review of asset data records.

We have also continued to monitor the Company's process safety management system. We received updates on the measures being taken to address levels of risk for major hazard assets, including key US LNG plants. The Committee also received updates on the Company's US gas pipeline safety compliance and its interface with the NYPSC on the subject of new gas pipeline safety rules.

In terms of the environment, we have continued to monitor our strategy and approach to sustainability, as well as the Company's external reporting of its environmental performance, including its greenhouse gas emissions. In particular, we reviewed the impact of the sale of the UK Gas Distribution business on the Company's greenhouse gas emissions and its ability to meet its target of reducing emissions by 80% by 2050 against a revised 1990 baseline.

Examples of other matters the Committee reviewed during the year included:

- ongoing monitoring of safety performance and significant incidents in the UK and US;
- the expected impact of the UK Gas Distribution business sale on the Company's safety and environmental performance;
- compliance and risk reporting for safety, environment and health matters;
- the Company's approach to electromagnetic fields and its alignment with scientific research on the subject;
- sickness absence levels and trends for both UK and US businesses; and
- employee assistance programmes for mental well-being and their take up as well as soft tissue injury prevention programmes.

The Committee in action – safety processes and procedures

In its monitoring of major safety incidents and work on process safety management systems, the Committee has spent time looking at the processes and procedures that are in place and how these are implemented and applied in order to promote a strong safety culture across the whole of the Company.

When significant incidents occur, the Committee closely monitors management's analysis of the causes, as well as reviewing the steps taken by the Company to promote awareness by both employees and contractors and to address the risk of recurrence of incidents, including safety 'stand downs', briefings and training.

It is essential that all employees and contractors should be able to understand and apply instructions as a matter of routine. Where processes and procedures become too long and complex, there may be a risk that they are misapplied, circumvented or ignored. In other cases, there may be a lack of risk and control awareness because processes and procedures are inadequately designed or controlled. The Company's internal audit function, and its safety specialists, report regularly to the Committee on their findings and on work being undertaken to address these issues.

More widely, the Committee has spent considerable time reviewing the safety culture of the Company. While this is generally very good, in some parts of the business the analysis of significant incidents has shown instances of processes not being followed or inappropriate behaviours. The Committee monitors the steps taken by the Company following significant incidents, including looking at its processes and procedures and how they are being applied (see the Committee in action box opposite).

The Committee continues to receive reports from the EAC. In particular, we reviewed the progress made in succession planning for the Company's engineering employee population as well as the career progression and additional specialist qualification options and incentives available for engineers within the Company. We were pleased to note the appointment of chief engineers for both gas and electricity, with Group-wide remits. The EAC also reported to the Committee on peer reviews and sharing of best practice

Paul Golby
Committee chairman

Sir Peter Gershon
Committee chairman

Nominations Committee

Review of the year
Once again succession planning has been the main area of focus for the Committee during the year. It is important for the Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge at director and senior management level reflect the changing demands of the business. The process of building a strong and effective Board also requires a good balance of continuity and refreshment and the Committee has borne this in mind in its deliberations throughout the year.

Succession planning
We recognise that an active Nominations Committee is key to promoting effective board succession and we are committed to continuing to regularly review succession planning policy, taking into account the FRC's guidance to ensure that our policy is aligned to Company strategy, both current and in the future.

Following a thorough and rigorous process, Pierre Dufour was appointed as a Non-executive Director to the Board on 16 February 2017 and Badar Khan was appointed to the Executive Committee on 1 April 2017; see opposite for more details on these search and appointment processes.

Composition
Balance and fit in terms of skills, knowledge and experience are important considerations in recruitment to the Board. Therefore, part of the selection process for Board appointments is for the Committee to review the existing skills and experience of the Board and consider the current composition against the needs of the business and the requirements of the new position. External benchmarking of skills and a review of potential external candidates is also undertaken by external search and assessment consultancies to make sure that the Committee is fully briefed when making its considerations.

The Committee in action – Non-executive search and appointment process
During the year a formal process was undertaken by the Committee to find an appropriate new Non-executive Director, to strengthen the experience and skills on the Board and its Committees.

- The Nominations Committee appointed The Zygos Partnership as the search consultancy. A Non-executive Director profile was reviewed and agreed by the Committee.
- Zygos conducted initial searches and produced a potential list of candidates which was reduced to a shortlist against the agreed profile.
- Zygos narrowed its shortlist and interviews were undertaken with the Chairman, Chief Executive and other members of the Board.
- References for the potential candidates were circulated to the Committee and a meeting was held in October 2016 where the Chairman invited feedback from the Committee on the search and interview process.
- The Committee agreed a preferred candidate and made a recommendation to the Board in February 2017.
- The Board approved the recommendation and Pierre Dufour was appointed to the Board with effect from 16 February 2017.

Search and appointment process to the
Executive Committee
The Committee was also involved in the recruitment process for the newly created Executive Committee position to lead the new business, National Grid Ventures. The search and appointment process for this position was as follows:

- the Nominations Committee appointed Heidrick and Struggles as the search consultancy. With input from the Committee a role and person specification was agreed;
- Heidrick and Struggles conducted initial searches for potential candidates, with both internal and external candidates being put forward for the role;
- a series of interviews were undertaken by the Chairman, Chief Executive and other members of the Board;
- the Committee considered the outcomes from the interviews and selected candidates for further consideration;
- final interviews with the candidates were carried out by John Pettigrew and members of the Executive Committee and Board;
- the Committee recommended Badar Khan for appointment to the Executive Committee; and
- the Board approved the appointment and Badar Khan joined the Company as a member of the Executive Committee on 1 April 2017.

Examples of other matters the Committee considered during the year included:
- review of the Chairman's performance, led by Mark Williamson, the Senior Independent Director;
- review of Director independence and potential conflicts; and
- review of Executive Committee succession.

The Committee also takes into account the need to make sure there is appropriate diversity on the Board, including diversity in thinking styles. The Committee has considered the external reviews on diversity published during the year, namely the Parker Review and the Hampton-Alexander Review. Further details on the Company's approach to diversity are set out overleaf.

Board and committee membership

Following the changes in Board membership, the composition of the committees was also reviewed. As a result, our new Non-executive Director, Pierre Dufour joined the Safety, Environment and Health Committee, Remuneration Committee and Nominations Committee upon appointment. Following Pierre's appointment, Andrew Bonfield stepped down from the Safety, Environment and Health Committee on 21 April 2017 and Paul Golby stepped down from the Remuneration Committee on 16 May 2017.

Sir Peter Gershon
Committee Chairman

Board diversity

National Grid supports the creation of an inclusive and diverse culture which we believe supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Following the publication of the Parker Review 'Beyond One by '21'' and the Hampton-Alexander Report the Committee considered the recommendations of these reports and approved updates to the Board diversity policy and the associated objectives.

We have previously reported against eight objectives, set out below, to measure our progress against our Board diversity policy. At its April 2017 meeting the Committee reviewed these objectives and agreed that the majority of these should no longer be objectives but instead be the minimum standard required to support our Board diversity policy. As a result, only one of the original eight objectives was retained and updated and a new objective was added to address the recommendations of the Parker Review and the Hampton-Alexander Report, as set out below.

The Board diversity policy reflects all of the previous objectives and the Committee will continue to follow the requirements of the old objectives including only engaging executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity, adopting best practice as appropriate, reviewing progress against the objectives and the policy annually and reporting on progress in this report.

Our Board diversity policy continues to promote an inclusive and diverse culture and reaffirms our aspiration to meet and exceed the recommended voluntary target of 33% of Board positions being held by women by 2020. This objective, as set out below, has been updated following the recommendations of the Hampton-Alexander Report, to extend this voluntary target of 33% women by 2020 to the Executive Committee and direct reports to this committee.

The Parker Review, published in November 2016, recommended every FTSE 100 board should have at least one director from a non-white ethnic minority by 2021. The Committee has reflected this recommendation in a new objective as set out below.

Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out on page 30.

Objectives	Progress
Current	
The Board aspires to meet the target of 33% of Board and Committee positions, and direct reports to the Executive Committee, to be held by women by 2020.	**Objective ongoing.** We currently have 33% women on our Board and 22% women on our Executive Committee and 30% women direct reports to the Executive Committee. The number of women in senior management positions and throughout the organisation is set out on page 31.
The Board aspires to meet the Parker Review target for FTSE 100 boards to have at least one director from a non-white ethnic minority by 2021.	**Objective met.** We currently have one Director from a non-white ethnic minority on the Board.
Previous	
All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.	**Objective met.** The appointment of Pierre Dufour was made on merit.
We will only engage executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity.	**Objective met.** Heidrick and Struggles and The Zygos Partnership are signed up to the Voluntary Code of Conduct on Gender Diversity.
Where appropriate, we will assist with the development and support of initiatives that promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met.** See page 30 for further details.
Where appropriate, we will continue to adopt best practice in response to the Davies Review.	**Objective met.** Ongoing as appropriate.
We will review our progress against the Board diversity policy annually.	**Objective met.** Ongoing.
We will report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met.** Ongoing.
We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.	**Objective met.** Ongoing.

Executive Committee membership key

1 **John Pettigrew**
Chief Executive and Committee chairman

2 **Andrew Bonfield**
Finance Director

3 **Badar Khan**
Group Director, Corporate Development and National Grid Ventures

4 **Alison Kay**
Group General Counsel & Company Secretary

5 **Richard Adduci**
Chief Information Officer

6 **George Mayhew**
Group Corporate Affairs Director

7 **Dean Seavers**
Executive Director, US

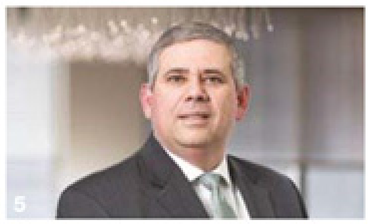
8 **Mike Westcott**
Group Human Resources Director

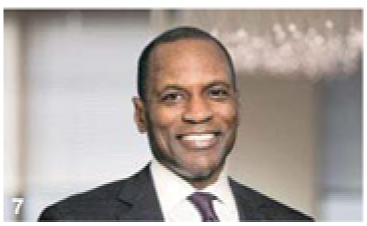
9 **Nicola Shaw**
Executive Director, UK

Membership as at 1 April 2017









Management committees

To help make sure we allocate time and expertise appropriately, the Company has a number of management committees, which include the Executive Committee, and Disclosure Committee. These committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated. See page 36 for management committee reporting lines.

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments.

Disclosure Committee

The role of the Disclosure Committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of disclosures made – whether in connection with our presentations to analysts, financial reporting obligations, or other material stock exchange announcements, including the disclosure of price sensitive information.

This year the Committee met to consider the announcements of the full- and half-year results and reported on relevant matters to the Audit Committee. It also met in December to consider the announcement of the preferred bidder for the sale of a majority interest in the UK Gas Distribution business and again at the end of March to review the announcement of the completion of the sale and the option for the sale of a further 14% equity interest in the business.

The Committee reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

The committee in action – National Grid Smart (NGS)

Following the decision last year to invest in the NGS business, the Committee reviewed the investment opportunities of the business, and considered a number of matters impacting the opportunities, including the Government's support for the smart metering roll-out in the UK, the associated roll-out challenges faced by the industry and the alignment of the NGS business to wider distributed energy opportunities.

The Committee challenged the NGS team on the business mobilisation progress, the strength of the customer pipeline, the service proposition, rental pricing and the operational capability required to make the business a success.

Acknowledging the competitive nature of the market, the Committee endorsed a governance framework that would enable NGS to respond quickly to future contracting opportunities, manage the performance of the business, and allow the Committee to monitor the performance of NGS as appropriate.

The Committee is chaired by the Finance Director and its members are the Group General Counsel & Company Secretary, the Group Tax & Treasury Director, the Group Financial Controller, the Director of Investor Relations, the Head of Corporate Audit and the Deputy Group General Counsel, with other attendees as appropriate.

Corporate Governance continued

Statement of compliance with the UK Corporate Governance Code

The UK Listing Rules require that listed companies must include in their annual report a statement of whether the Company has complied with all the relevant provisions of the UK Corporate Governance Code (the Code). The Code was published in September 2014 and updated in 2016 to reflect forthcoming legislation on audit committees and auditor appointments, and is available in full at www.frc.org.uk.

For the year ended 31 March 2017, the Board considers that it has complied in full with the provisions of the 2014 Code. Our statement of compliance opposite explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 53 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4.

A. Leadership

A.1 The role of the Board

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

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 15 to 18).

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both reviewed and updated in January 2017. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

A.2 A clear division of responsibilities

The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. The Chairman manages and leads the Board. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and the Group's businesses, to ensure the delivery of the strategy agreed by the Board.

A.3 Role of the Chairman

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all items, including strategic issues.

A.4 Role of the Non-executive Directors

Independent of management, our Non-executive Directors bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and their views are actively sought when developing proposals on strategy.

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

Around each of the nine scheduled Board meetings, the Chairman held meetings with the Non-executive Directors without the Executive Directors present. These meetings were not held around the two ad-hoc Board meetings in September and December to consider the bids in relation to the sale of the UK Gas Distribution business.

B. Effectiveness

B.1 The composition of the Board
The Board believes it operates effectively with an appropriate balance of independent Non-executive and Executive Directors who have the right balance of skills, experience, independence and knowledge of the Company. Details of our Board, their individual biographies and committee membership are set out on pages 34 and 35. Board and committee attendance during the year to 31 March 2017 is set out on page 37. The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service. At year end, all of the Non-executive Directors, with the exception of the Chairman, whose independence is only determined on appointment, have been determined by the Board to be independent.

B.2 Appointments to the Board
The Nominations Committee, which comprises the Chairman and Non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. Further details of appointment processes for Nicola Shaw and Pierre Dufour, succession planning and the role of the Nominations Committee can be found on page 47.

The Zygos Partnership and Heidrick and Struggles provided external search consultancy services in relation to the above appointments. Neither have any other connection to the Company other than providing these external search consultancy services.

B.3 Time commitment
Non-executive Directors are advised of the time commitment expected from them on appointment. External commitments, which may impact existing time commitments, must be agreed with the Chairman. Details of external appointments are set out in the biographies on pages 34 and 35. As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman, taking into account other significant appointments.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. For further details about the Directors' service contracts and letters of appointment, see page 61 of the Directors' Remuneration Report.

B.4 Development
All new Directors are provided with a full induction programme when they are appointed to the Board. Details of Director induction and development can be found on page 37.

B.5 Information and support
The Group General Counsel & Company Secretary makes sure that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the Group General Counsel & Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. To support discussion and decision making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback from the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and the Group General Counsel & Company Secretary after each meeting and shares the feedback from these meetings with the Chairman. A clear set of guidelines are in place to assist the Executive Directors and management on the content and presentation of papers to the Board and committees. A further refresh of the Board paper process took place this year. See page 39 for more details.

B.6 Evaluation
See pages 38 and 39 for more information on our Board evaluation. During the year, the Chairman met each Director individually to discuss their contribution, performance over the year and training and development needs. Following these meetings, Sir Peter confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and their performance continued to be effective. At a private meeting of the Non-executive Directors, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place, given he was also chairman of a FTSE 250 company during the year and the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust. They concluded that Sir Peter's performance continued to be effective.

B.7 Election/re-election
Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, Pierre Dufour will seek election and all other Directors (except Ruth Kelly) will seek re-election at the 2017 AGM as set out in the Notice of Meeting.

Statement of compliance with the UK Corporate Governance Code continued

C. Accountability

C.1 Financial and business reporting
The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report and Accounts is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

The drafting and assurance process supports the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Annual Report and Accounts and the statement of Directors' responsibilities as set out on page 74. The independent auditors' report is on pages 75 to 82 and the Company's business model is on page 14.

C.2 Internal control and risk management
The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 16 and 17.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board undertakes a review of their effectiveness annually. Further details are set out on pages 15 to 18.

The activities of the Audit Committee, which assists the Board with its responsibilities in relation to risk and assurance, are set out on pages 40 to 44.

C.3 Audit Committee and auditors
The Audit Committee report on pages 40 to 44 sets out details of how the Committee has discharged its duties during the year, matters reviewed by the Committee and how it ensures the auditors' objectivity, effectiveness and continued independence.

D. Remuneration

D.1 The level and components of remuneration
The Remuneration Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and make sure it reflects our shareholders', customers' and regulators' interests.

The Remuneration Report on pages 54 to 71 outlines the activities of the Committee during the year and sets out the proposed Directors' remuneration policy which will be presented to shareholders for approval at the 2017 AGM. The new resolution to approve the remuneration policy is set out in the Notice of Meeting for the 2017 AGM.

D.2 Procedure
For further information on the work of the Remuneration Committee and Directors' remuneration packages see the Directors' Remuneration Report on pages 54 to 71. The Committee's terms of reference are available on our website.

E. Relations with shareholders

E.1 Dialogue with shareholders
The Board as a whole is responsible for making sure that satisfactory dialogue with shareholders takes place. We believe that effective channels of communication with the Company's debt and equity institutional investors and individual shareholders are very important. More information about our approach to relations with shareholders can be found on page 37.

E.2 Constructive use of General Meetings
The AGM provides a key opportunity for the Board to communicate with and meet shareholders. Shareholders are able to learn more about the Company through exhibits and can ask questions directly of the Board. Company representatives and our Registrar are also on hand to answer any questions shareholders might have.

Our AGM will be held on Monday 31 July 2017 at The International Convention Centre in Birmingham and broadcast via our website. The Notice of Meeting for the 2017 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

We will also be holding a General Meeting on 19 May 2017 to seek shareholder approval for a proposed share consolidation in connection with the return of cash as a result of the sale of a majority interest in our UK Gas Distribution business.

In addition, at the General Meeting, shareholder approval will in addition be sought to renew the annual authority to enable the Company to make market purchases of its own shares, as well as to allot ordinary shares and to disapply pre-emption rights, to cover the period between the date of the General Meeting and the 2017 AGM.

Index to Directors' Report and other disclosures
(starting on page indicated)

Jonathan Dawson
Committee chairman

Annual statement from the Remuneration Committee chairman

Introduction

Three years ago, at our 2014 AGM, shareholders approved a new three-year remuneration policy for National Grid, with 96% of the votes in favour. At our 2015 and 2016 AGMs shareholders supported our execution of the policy with 97% of the votes in favour each year. This year we are seeking your approval of our remuneration policy for a further three years.

We have reviewed the remuneration policy reflecting on the wider environment as well as the strategic review of our business, leading to an evolution of National Grid's purpose, vision, values and strategy. In this context, we consider that the existing framework will continue to provide executives with an appropriate opportunity to earn remuneration in line with National Grid's overall performance and strategy. **We are therefore proposing that the 2014 policy is renewed without any changes either to the structure, or to the maximum amounts for the APP and LTPP.**

The key elements of our remuneration approach are:

- significant weighting towards the Long Term Performance Plan (LTPP) versus the Annual Performance Plan (APP);
- the bulk of senior executive remuneration is paid in National Grid shares, with all of the LTPP paid only in shares, and half of the APP paid in shares;
- very high levels of personal shareholding required to be held by senior executives – specifically, 500% of pre-tax salary for the Chief Executive and 400% for other Executive Directors;
- a three-year performance period for measuring potential awards under the LTPP, coupled with a holding period of a further two years, irrespective of whether the mandatory personal shareholding target has been attained;
- performance metrics for the LTPP which are Return on Equity (measuring management's performance in generating profit from the business) and Value Growth (measuring management's creation of shareholder value over the longer term); and
- malus and clawback provisions applicable to both the APP and LTPP.

Review of remuneration policy

The Committee held a number of discussions last Autumn to determine whether any material changes to the remuneration policy would be appropriate for the future. Discussions covered recent trends in remuneration strategy adopted by other major UK corporates, an appraisal of developments in other major jurisdictions, data comparing National Grid's remuneration policy and outturns against peer group companies, and the pay and conditions for employees below Board level. The main questions we considered were:

- Is the current split between short-term and long-term incentive pay appropriate?
- Are we incentivising behaviours that support National Grid's strategy and values?
- Are we paying executives fairly for performance and is this appropriate in the context of the wider employee population?
- Is the overall amount paid to senior management aligned with shareholder value creation?

The conclusion we reached was that the overall structure which we initiated three years ago remains appropriate for National Grid. We felt that to make any significant changes to the policy – particularly given that the first LTPP awarded under the 2014 policy had yet to vest – was premature for a long-term business. We also felt that the division between short-term and long-term pay gave proper focus and weight to generating long-term returns for shareholders.

There is no single approach to executive pay that is definitively 'right' for all companies. What we did was to appraise the way National Grid creates value for its shareholders over time, and fulfils its national and societal obligations, recognising also that we are in a competitive market for senior executive talent. Against this backdrop, we believe the overall structure described above remains fair.

We are proposing some minor modifications to the metrics (but not the quantum) in respect of both the APP and LTPP for the implementation of the policy in 2017/18. More specifically, for the APP we will sharpen the focus on annual regional performance for the UK and US Executive Directors, with half of the weighting of the financial performance being on regional RoE and half on regional Value Added. There will be no change to the financial performance metrics for either the Chief Executive or the Finance Director. The LTPP will then focus solely on long-term Group performance for all Executive Directors with a 50% weighting on Group RoE and a 50% weighting on Group Value Growth. These changes should enhance the visibility for executives between their annual performance and short-term incentive outcome, while reinforcing executives' collective incentive on sustaining long-term Group performance. No changes are being proposed to the maximum level of awards in respect of either the APP or the LTPP.

We think that the best way to make sure management and other shareholders share the same interest comes from requiring executives to have a very substantial personal shareholding in National Grid. We want executives to view their remuneration from employment at National Grid as a mix of annual earnings, together with both the growth of their shareholdings in National Grid and the value of dividends received. As a result, we consider that the remuneration policy currently in place demonstrates close alignment between management and other shareholders, and a proper focus on generating long-term value.

Page 70 provides more detail on the implementation of our policy related to incentive plans for 2017/18.

We also looked at pension provisions as part of our policy review, including in relation to other employees of the Company. The annual contribution to a Defined Contribution plan (DC) is 30% of base salary for UK-based Directors and certain other senior UK-based employees. In the US the contribution rate is up to 13% of base salary plus APP award for US-based Directors and certain other senior US-based employees. Pension contributions are tiered by managerial grade down to 12% of base salary in the UK, and in the US 4-8% of base salary plus APP award (depending on age and years of service). To highlight the flexibility on any pension arrangements for new UK-based Directors, we have modified the wording in the policy related to UK DC pension contributions to ‘up to’ 30%.

Performance for the year

APP

National Grid had another successful year in 2016/17. At £4.7 billion, this year's total adjusted operating profit was 14% higher than in 2015/16; earnings per share was 73 pence. During the year the Company made significant capital investment in its networks of some £4.5 billion, split equally between the UK and the US. In addition, a majority interest in the UK Gas Distribution business was sold to a consortium of investors for a price of £13.8 billion. As already announced, we will be returning the majority of the net proceeds to shareholders, and a special dividend of some £3.2 billion is being paid to shareholders on 2 June 2017. Additionally, a further £835 million is being returned to shareholders via share buybacks this year.

When assessing the results of the APP for the Executive Directors, one of the performance measures, Earnings per share (EPS), was adjusted down as in other years to adjust for the impact of timing, scrip dividend uptake and currency adjustments. This year we also removed a 2 pence benefit arising from a one-off gain from the cessation of depreciation of the UK Gas Distribution assets since December. No adjustments were made to Group, US or UK RoE outturns.

Based on National Grid's financial performance, and taking account of performance against individual objectives, the APP payments to Executive Directors on the Board at 31 March 2017 would have been between 96% and 104% of salary. However, following the fatal incident in November 2016 at the Company's electricity sub-station at East Claydon in Buckinghamshire, UK, the Committee considered carefully whether it would be appropriate to exercise its discretion to reduce short-term incentive levels for senior executives. The Committee decided to reduce the overall APP payout by 10% for the four Executive Directors at that time, resulting in APP awards of 86% to 94% of salary. This is in addition to a zero score for individual objectives relating to UK safety, which were applicable to John Pettigrew and Nicola Shaw this year. Similar reductions in APP have been made to other members of the Group Executive Committee, UK Executive Committee, and relevant line management. The Committee considers that this approach to allocating short-term incentive reductions – which is fully supported by senior management – serves to emphasise the collective interest and importance of safety at National Grid.

Details of the APP payouts are presented on page 64, including that for Steve Holliday, who was an Executive Director from 1 April until 22 July. He received an APP payment for that time period, amounting to 81% of his prorated salary.

Looking ahead to the 2017/18 APP, and following the sale of a majority interest in the UK Gas Distribution business, the UK RoE metric for the 2017/18 APP for the Executive Director, UK will be specific to the wholly-owned regulated businesses in the UK. The Executive Director, UK also has an individual objective to manage the 39% retained interest in the UK Gas Distribution business as a member of its board.

LTPP

As I reported in my statement last year, our remuneration has been in a transitional phase since the approval of our current remuneration policy in 2014. At that time the APP opportunity was lowered, the LTPP opportunity was increased and the LTPP performance period was simplified. This led to the vesting of the final quarter of the 2013 award made under the previous policy as well as the 2014 award under the current policy in July 2017, with both performance periods ending 31 March 2017.

2013 LTPP

Three-quarters of the LTPP that was awarded in 2013 (before the present policy came into force) had a vesting date of July 2016 and the remaining quarter is due to vest in July 2017. The performance periods for both portions have ended, and vesting outcomes ranged from 77% to 90%.

2014 LTPP

The LTPP that was awarded in 2014 according to the remuneration policy adopted at the 2014 AGM is due to vest in full in July 2017. The performance period has ended and the vesting outcomes ranged from 67% to 91%. This vesting range reflects the Committee's decision to include, in the Value Growth outcome, a portion of the value added from the sale of a majority interest in the UK Gas Distribution business. The Committee believes this adjustment properly reflects performance during the year and the benefit to shareholders.

Reflecting the final year of the transitional phase, the single total figure of remuneration table for 2016/17 discloses both the 2013 and 2014 LTPP awards in full, although no Executive Director received more than one LTPP grant in any year. We have illustrated the impact of the transitional phase graphically on page 65. Next year the disclosure of LTPP awards for 2017/18 will be simpler as the number in the single total figure of remuneration table will incorporate only the amounts for the 2015 LTPP whose performance period will have just ended.

Executive Director shareholdings

In 2014, we introduced high levels of shareholding requirement for our Executive Directors in order to align them further to shareholders. As at 31 March 2017, Andrew Bonfield exceeded this shareholding requirement. As John Pettigrew, Dean Seavers and Nicola Shaw were appointed to the Board relatively recently, they have not yet met this shareholding requirement and therefore under our rules will not be given permission to sell shares (other than to pay income tax on receipt of the shares or in exceptional circumstances).

Annual salary review

As I reported last year, when John Pettigrew and Nicola Shaw were appointed to their respective positions, the Committee decided not to award them salaries at our assessment of then current market levels, but instead, and subject to their individual performance, we would gradually phase over time increases to salary in excess of increases awarded to other company employees. This approach is consistent with that used for the wider managerial population, where employees whose salaries are relatively low compared to the market receive significantly larger salary increases than budget when justified by individual performance.

The Committee therefore considered John Pettigrew's and Nicola Shaw's performance during the year to determine whether performance in their respective roles merited awarding base salary increases above the general level within the Company. In John Pettigrew's case the Committee concluded that he had made a very strong start in establishing himself as Chief Executive, notably with regard to evolving National Grid's purpose, vision and strategy; delivering a strong set of Group financial results; establishing National Grid Ventures as a new business; agreeing with BEIS and Ofgem a sound basis for the redefined Electricity System Operator (ESO); achieving an excellent outcome to the 2016/17 employee survey; achieving good rate case outcomes; and securing a very good price for the sale of a majority interest in the UK Gas Distribution business (and associated return of capital to shareholders).

Regarding Nicola Shaw, the Committee considered that she had also made a very strong start in her role as Executive Director, UK, demonstrated in particular by effective leadership both with employees (as evidenced by strong employee survey results) and key external stakeholders; delivering strong results for the UK business; making a major contribution to the redefinition of the ESO; supporting the successful sale of a majority interest in the UK Gas Distribution business; and contributing to a fair outcome from the Mid-Period Review with Ofgem for National Grid and its customers.

The Committee also took account of pay ratios and National Grid's investors' experience and concluded that it was appropriate to award John Pettigrew and Nicola Shaw a salary increase of 9% comprising the UK managerial budgeted increase of 2.6% plus a further 6.4%. Salary increases to Andrew Bonfield and Dean Seavers, whose salaries are closer to market levels, are in line with UK and US managerial budgets, at 2.6% and 2.5%, respectively. We intend to apply the same approach next year, once again subject to individual performance.

Disclosure enhancements

In its review of the remuneration policy, the Committee took note of evolving best practice regarding detailed disclosure of APP targets. Accordingly, full details of the retrospective threshold, target and stretch performance levels for the financial metrics within the APP in respect of the year ended 31 March 2017 are set out on page 64. These disclosures complement our current threshold, target and stretch performance level disclosures in respect of the LTPP.

Committee membership

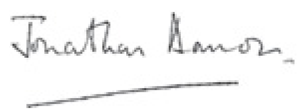
Pierre Dufour joined the Remuneration Committee in February 2017, and Paul Golby stepped down from the Committee in May 2017.

Conclusion

The Committee has given very careful thought to the remuneration structure for senior executives at National Grid. We believe that the arrangements set up three years ago, focussed on mainly share-based incentives, long-term performance and substantial personal shareholdings in National Grid, remain appropriate and fair. **We therefore propose to make no changes either to the structure or to the maximum amounts for the APP and LTPP.** As I have described above, we propose to make some minor adjustments to some of the metrics and between the split of group and regional performance across the APP and LTPP. We believe these changes will improve alignment and transparency.

For the 2016/17 financial year, the Committee believes that it has correctly implemented the approved policy and that it has appropriately and reasonably exercised its discretion as discussed above. Overall the Committee believes that the remuneration earned last year by senior executives continues to reflect their performance, the Company's performance, and the value generated for National Grid's shareholders.

This year there are two separate remuneration votes – to approve a binding three-year policy, and to approve the remuneration report for 2016/17. On behalf of the Committee I commend this report to you and ask for your support for both resolutions at the AGM.



Jonathan Dawson
Committee chairman

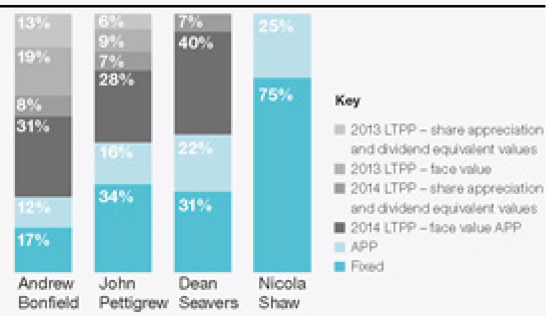
At a glance

Performance

A comparison of the total 2016/17 single figure of remuneration to the maximum remuneration if variable pay had vested in full is set out below for the four Executive Directors in office for the full year. Due to the transition in vesting schedules, both the 2013 and 2014 LTPPs have been included.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2016/17 single figure remuneration £'000
Andrew Bonfield	7,050	5,891
John Pettigrew	5,143	4,636
Dean Seavers	4,196	3,165
.Nicola Shaw	1,362	1,254



	Key features of policy	Annual report on remuneration for 2016/17
Salary	• Target broadly mid-market against FTSE 11-40 for UK Directors and general industry and energy services companies with similar revenue for US Directors	• John Pettigrew appointed as CEO from 1 April 2016 on £825,000 • Nicola Shaw appointed as Executive Director, UK from 1 July 2016 on £450,000 • Salary increases of 2.0% and 2.5% for Andrew Bonfield and Dean Seavers, respectively, for 2016/17
Annual Performance Plan (APP)	• Maximum opportunity is 125% of salary • 50% paid in cash, 50% paid in shares which must be retained until later of two years and meeting shareholding requirement • Subject to both clawback and malus	• 70% based on financial metrics (35% EPS, 35% RoE), 30% based on individual objectives • Group RoE for CEO and Finance Director; UK RoE for Executive Director, UK; US RoE for Executive Director, US • Individual objectives cover safety and compliance, business growth, operational excellence, customer satisfaction, community engagement, stakeholder engagement, Group strategy, and completion of the partial sale of our UK Gas Distribution business
Long Term Performance Plan (LTPP)	• Maximum award level is 350% of salary for CEO and 300% for other Executive Directors • Vesting subject to long-term performance conditions over a three-year performance period • Shares must be retained until later of two years from vesting and meeting shareholding requirement • Subject to both clawback and malus	• 50% Value Growth, 50% RoE • Group RoE for CEO and Finance Director; even split of Group and UK RoE for Executive Director, UK; even split of Group and US RoE for Executive Director, US
Pension and other benefits	• External appointees participate in DC plan or cash in lieu; internal appointees retain current benefits, subject to capping of pensionable pay increases for DB plans, or can opt for cash in lieu • Pensionable pay is salary only in UK and salary and APP in US in alignment with market • Other benefits as appropriate	• UK cash allowance (Andrew Bonfield, John Pettigrew and Nicola Shaw): 30% of pensionable pay • US DC (Dean Seavers): 9% of pensionable pay with additional match of up to 4% • Other benefits include private medical insurance, life assurance, and, for UK-based Executive Directors either a fully expensed car or a cash alternative to a car and the use of a car and driver when required
Shareholding requirement	• 500% of salary for CEO • 400% of salary for other Executive Directors	• Andrew Bonfield has met the shareholding requirement • John Pettigrew, Dean Seavers and Nicola Shaw were appointed to the Board relatively recently, and therefore have not yet met the shareholding requirement

Directors' remuneration policy

The following tables provide details of the policy we intend to apply, subject to shareholder approval, for the three years from the date of the 2017 AGM. Following approval it will be displayed on the Company's website.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

The Committee will honour any commitments made to Directors before the policy outlined in this report comes into effect.

Our peer group
The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is the FTSE 11–40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Future policy table – Executive Directors Salary

Salary — Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: ● business and individual contribution; ● the individual's skills and experience; ● scope of the role, including any changes in responsibility; and ● market data in the relevant comparator group.	No prescribed maximum annual increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level.	Not applicable.

Benefits — Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: ● company car or a cash alternative (UK only); ● use of a car and driver when required; ● private medical insurance; ● life assurance; ● personal accident insurance; ● opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and ● opportunity to participate in the following HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans:	Benefits have no predetermined maximum, as the cost of providing these varies from year to year. Participation in tax approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period.

Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust.

Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions.

Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price.

Other benefits may be offered at the discretion of the Committee.

Pension — Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: • retention of existing DB benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing UK DC benefits with discretion to enhance contribution rate to up to 30%; or • cash in lieu; or • retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: • UK DC benefits or equivalent cash in lieu; or • US DC benefits plus 401(k) plan match. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. UK DC: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependant's pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with UK DC (or UK DB where the Director was previously a member of a UK DB scheme). US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62. For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). US DC: annual contributions of up to 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Annual Performance Plan

Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. 50% of awards are paid in shares, which (after any sales to pay associated income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to clawback and malus provisions.	The maximum award is 125% of salary.	A majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.

Directors' remuneration policy continued

Long Term Performance Plan Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Participants may receive ordinary dividend equivalents on vested shares at the discretion of the Committee. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. Participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.	The maximum award for the Chief Executive is 350% of salary and it is 300% of salary for the other Executive Directors.	For awards between 2014 and 2016, the performance measures were: ● Value Growth and Group RoE (for the Chief Executive and Finance Director); and ● Value Growth, Group RoE and UK or US RoE (for the UK and US Executive Directors respectively). For awards from 2017, the performance measures are Value Growth and Group RoE for all Executive Directors. All are measured over a three-year period. The weightings of these measures may vary year to year, but would always remain such that the Value Growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Only 20% of the award vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs

Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee. Fee structure: ● Chairman fee; ● basic fee, which differs for UK- and US-based NEDs; ● committee membership fee; ● committee chair fee; and ● Senior Independent Director fee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Additionally, the Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, and the use of a car and driver, when required. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards. There is no provision for termination payments. NEDs stand for re-election every year.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Directors' remuneration policy continued

Shareholding requirement
The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests.

Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the Chief Executive and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee.

Differences in remuneration policy for all employees
The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay.

All employees are entitled to base salary, benefits and pension contributions. Many employees are eligible for an APP award based on Company and individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 380 senior management employees are awarded LTPPs annually.

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the Share Incentive Plan (SIP) in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 58.

Consideration of remuneration policy elsewhere in the Company
In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

The Company issues an employee engagement survey each year which includes questions on remuneration. It does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are noted.

Policy on recruitment remuneration
Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for the Chief Executive).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at the time of appointment.

Service contracts and policy on payment for loss of office
In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period not greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax purposes the policy is to make any payment in lieu of

Directors' remuneration policy continued

notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director being made redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case an APP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any APP award would be prorated and would be subject to performance achieved against the objectives for that year.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances, including redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' may vest subject to performance measured at the normal vesting date and are prorated. Such awards would vest at the same time as for other participants, apart from circumstances in which the award recipient has died, in which case the awards vest as soon as practicable (based on a forecast of performance).

The Chairman's appointment is subject to six months' notice by either party; for the other Non-executive Directors, notice is one month. No compensation is payable to Non-executive Directors if they are required to stand down or are not re-elected.

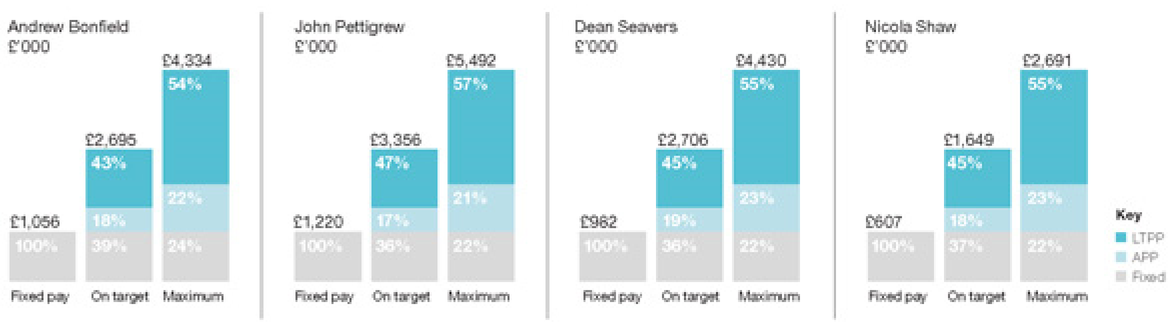
Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

External appointments

The Executive Directors may, with the approval of the Board, accept one external appointment as a non-executive director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be valuable personal development, that in turn is of benefit to the Company.

Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2017 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.



1. 'Fixed pay' consists of salary, pension and benefits-in-kind as provided under the remuneration policy.
2. Salary is that to be paid in 2017/18, taking account of the increases that will be effective from 1 June 2017 shown on page 70. Dean Seavers' salary has been converted at $1.2949:£1
3. Benefits-in-kind and pension are as shown in the Single Total Figure of Remuneration table for 2016/17 on page 63. Benefits-in-kind for John Pettigrew exclude one-off relocation payments made in 2016/17 as a result of his appointment as Chief Executive.
4. APP calculations are based on 125% of salary for the period 1 April 2017 to 31 March 2018.
5. LTPP calculations are based on awards with a face value of 350% of 1 June 2017 salary for John Pettigrew and 300% of 1 June 2017 salary for all other Executive Directors. Excludes changes in share price and dividend equivalents.
6. LTPP and APP payout is 50% for on-target performance and the maximum of 100% is for achieving stretch.

Statement of consideration of shareholder views

The Committee considers all feedback relating to executive remuneration received from shareholders throughout the year. While the committee understands that not all shareholders' views will be the same, we consult with our larger shareholders when appropriate to understand expectations and views regarding executive remuneration.

Annual report on remuneration

Statement of implementation of remuneration policy in 2016/17

Role of Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2016/17 were Nora Mead Brownell, Jonathan Dawson (chair), Pierre Dufour (from March), Paul Golby and Mark Williamson.

The Committee's activities during the year

Meeting	Main areas of discussion
April	Final approval of 2016 LTPP targets 2015/16 individual objectives scoring for Executive Committee Executive Committee shareholdings and dilution limits Review of Committee Terms of Reference
May	2015/16 APP financial outturns and individual performance and confirmation of awards Annual salary review and LTPP proposals for Executive Committee Final approval of APP targets for 2016/17 financial year Final approval of 2016/17 objectives for Executive Committee
August	Items related to new Executive Committee appointment
November	2017 Remuneration Policy discussion
December	Review of ISS Pay for Performance peer group 2017 Remuneration Policy discussion Items related to new Executive Committee appointment
January	Discussion of impact of sale of majority stake in UK Gas Distribution business on APP and LTPP metrics
March	Market data review for Executive Committee remuneration 2017 Directors' Remuneration Report – reviewed first draft Discussion of metrics and targets for 2017/18 APP and 2017 LTPP Review of 2017/18 objectives for Executive Committee

Single Total Figure of Remuneration – Executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2016/17, together with comparative figures for 2015/16:

	Salary £'000		Benefits in kind £'000		APP £'000		2013 LTPP £'000	2014 LTPP £'000	Total LTPP £'000		Pension £'000		Other £'000		Total £'000	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	2016/17	2016/17	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Andrew Bonfield	**749**	736	**60**	61	**684**	865	1,855	2,318	**4,173**	1,383	**225**	221	**–**	–	**5,891**	3,266
Steve Holliday	**320**	1,033	**12**	41	**260**	1,222	2,490	–	**2,490**	2,185	**262**	730	**–**	–	**3,344**	5,211
John Pettigrew	**825**	503	**497**	14	**762**	503	694	1,610	**2,304**	425	**248**	143	**–**	–	**4,636**	1,588
Dean Seavers	**800**	678	**25**	39	**694**	649	–	1,501	**1,501**	–	**145**	148	**–**	170	**3,165**	1,684
Nicola Shaw	**338**	–	**15**	–	**315**	–	–	–	**–**	–	**101**	–	**485**	–	**1,254**	–
Total	**3,032**	2,950	**609**	155	**2,715**	3,239	5,039	5,429	**10,468**	3,993	**981**	1,242	**485**	170	**18,290**	11,749

Notes:

Salary: Base salaries were last increased on 1 June 2016. At this time Andrew Bonfield and Dean Seavers received salary increases of 2.0% and 2.5% respectively, in line with the average salary increases given to other managerial employees of the Company in the UK and US respectively. Dean Seavers' salary has been converted at $1.2767:£1 for 2016/17 ($1.4744:£1 for 2015/16). Steve Holliday did not receive a salary increase due to his planned retirement on 22 July 2016, and his salary was only paid to this date. John Pettigrew and Nicola Shaw were newly appointed as Chief Executive and Executive Director, UK respectively. Nicola Shaw's base salary was paid from her start date of 1 July 2016.

APP: Steve Holliday's APP award is based on his prorated salary for the time on the Board in the 2016/17 financial year before he stepped down on his retirement in July 2016. Following a fatality in the UK that occurred in November 2016, the APP awards have been reduced by 10% for the Executive Directors at that time.

Benefits in kind: Benefits in kind include private medical insurance, life assurance and for UK-based Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a car and driver when required. For John Pettigrew, this amount includes a reimbursement for costs relating to his relocation to London on appointment as Chief Executive.

Other: For Nicola Shaw, Other includes a £485,000 cash payment to compensate her for the forfeiture of short-term and long-term incentive cash awards at her former employer which were due to vest in June 2016.

LTPP: Three quarters of the 2013 LTPP award vested in July 2016, and the remaining quarter is due to vest in July 2017. Additionally, the entire 2014 LTPP award is due to vest in July 2017. The above value for 2016/17 therefore includes all of these amounts, and separate columns have been provided to delineate the two awards. No Executive Director received two LTPP awards in the same year. For amounts vesting on 1 July 2016, the share price on that date of 1,105.5 pence ($74.36 per ADS) has been applied. For amounts due to vest on 1 July 2017, the average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence ($59.84 per ADS) has been applied. The 2015/16 LTPP amount has been restated to reflect the actual amounts that vested on 1 July 2016 for RoE, rather than the estimate shown in last year's annual report. Due to a higher share price at vesting of 1,105.5 pence ($74.36 per ADS) versus the estimate of 958 pence ($69.23 per ADS), the actual value at vesting was £38,425, £60,700, and £18,882 higher than the estimate for Andrew Bonfield, Steve Holliday and John Pettigrew respectively. The remaining 25% portion of Steve Holliday's 2013 LTPP award

(with expected vesting of £0.3 million) and the full 2014 LTPP award (with expected vesting of £2.2 million) will not vest until 1 July 2017, approximately one year after he stepped down from the Board. Therefore the vested amounts will be disclosed in the Payments to Past Directors section in next year's Annual Report and Accounts.
Total: The Total remuneration excluding the 2013 LTPP would have been £4.0 million, £0.9 million and £3.9 million for Andrew Bonfield, Steve Holliday and John Pettigrew respectively. As a result, the Total for all Executive Directors would have been £13.3 million.

Annual report on remuneration continued

Performance against targets for APP 2016/17 (audited information)

APP awards are earned by reference to the financial year and paid in June. 50% of awards are paid in shares which (after any sales to pay income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. In relation to both the financial measures and individual objectives, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100% respectively and on a straight-line basis in between threshold and target performance and target and stretch performance. The individual objectives of the Executive Directors reflect the primary focus areas within the Company's overall strategic priorities:

- safety;
- business growth in the UK and US;
- operational excellence and improvement in overall Company performance and service to customers and communities;
- the talent pipeline and employee engagement;
- stakeholder engagement, sustainability and the environment; and
- successful completion of the sale of a majority of the UK Gas Distribution business.

The outcomes of APP awards earned in 2016/17 for the four Executive Directors at 31 March and prior to the 10% reduction (described in the note below), are shown in the tables below:

	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
Adjusted EPS (p/share)	35%	60.0	62.5	65.0	65.1	100%
Group RoE (%)		11.2	11.6	12.0	11.7	62.5%
UK RoE		2.65	2.90	3.15	3.00	70%
(Percentage points above average allowed regulatory return)	35%					
US RoE (%)		8.0	8.2	8.4	8.2	50%
Individual objectives	30%		See adjacent table			78–84%

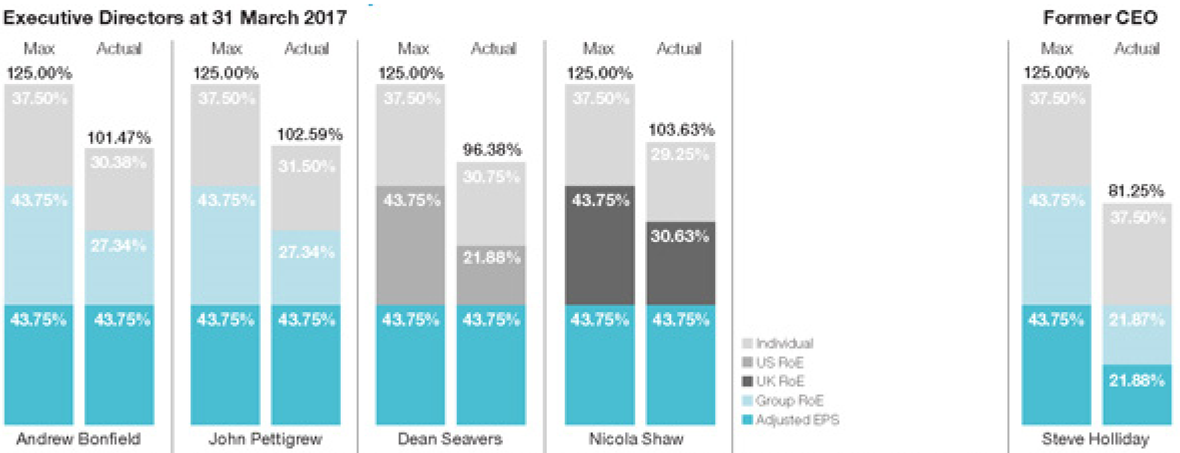
Notes:
Overall: Group RoE pertains to the Chief Executive and Finance Director, while UK RoE and US RoE pertain to the Executive Director, UK and Executive Director, US respectively. RoE in some form comprises 35% of the total maximum opportunity.
Adjusted EPS: Adjusted EPS actual is reduced by 7.9 pence to account for the impact of timing, scrip dividend uptake, currency adjustments and certain actuarial assumptions on pensions, and to remove the benefit of ceasing to depreciate UK Gas Distribution business assets since December 2016.

	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw
Safety and compliance		●	●	●
Business growth		●	●	●
Capability development	●	●	●	●
Stakeholder relations		●	●	●
Employee engagement	●	●	●	●
Financial strategy	●			
Operational excellence		●	●	●
Customer experience			●	●
Group strategy	●	●		
Completion of sale of majority stake in UK Gas Distribution	●	●		●
Proportion of maximum achieved	**81%**	**84%**	**82%**	**78%**

Steve Holliday's APP award for 2016/17 was based on his prorated salary from 1 April until 22 July and reflected target financial performance and stretch individual performance based on an assessment of his performance against the objective of completing a successful transition between himself and the newly appointed Chief Executive, John Pettigrew.

Following the fatal incident at the Company's electricity sub-station in November at East Claydon, Buckinghamshire, UK, the APP awards for the four Executive Directors on the Board at that time were reduced by 10%. The impact of the reduction is shown in the bar charts below.

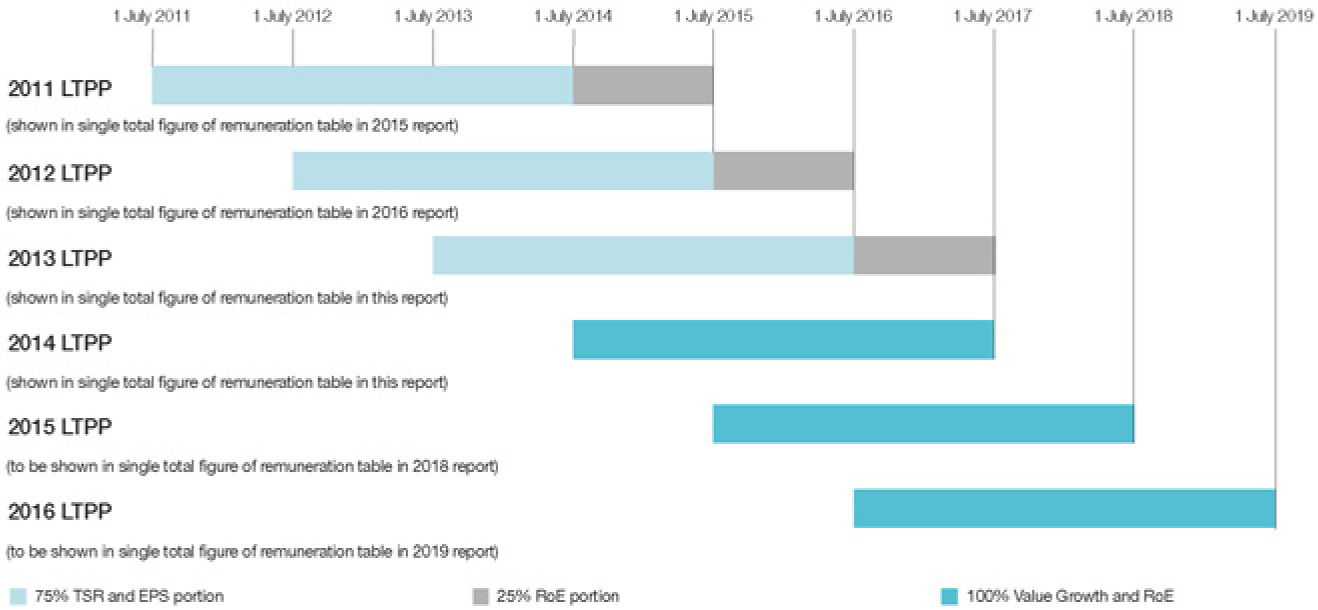
2016/17 APP as proportion of base salary



	Andrew Bonfield Max	Andrew Bonfield Actual	John Pettigrew Max	John Pettigrew Actual	Dean Seavers Max	Dean Seavers Actual	Nicola Shaw Max	Nicola Shaw Actual		Steve Holliday Max	Steve Holliday Actual
	£936,604	£760,289	£1,031,250	£846,399	£999,484	£770,602	£421,875	£349,734	**APP amount before reduction**	£399,949	£259,967
		£76,029		£84,640		£77,060		£34,973	**10% reduction**		–
		£684,260		£761,759		£693,542		£314,761	**Final APP amounts**		£259,967
		91.32%		**92.33%**		**86.74%**		**93.26%**	**Final APP amounts as a percentage of maximum**		**81.25%**

2016/17 LTPP performance (audited information)

The LTPP value included in the 2016/17 single total figure relates to vesting of the conditional LTPP awards granted in both 2013 and 2014. This arises from the change to the performance periods as part of the policy implemented in 2014. A visual illustration of this transition is presented below. No Executive Director received more than one LTPP grant in any year.



2013 LTPP

The 2013 award is determined based on differing performance periods and vesting dates:

- performance over the three years ending 31 March 2016 for the EPS measure (50% weighting) which vested on 1 July 2016;
- performance over the three years ending 30 June 2016 for the TSR measure (25% weighting) which vested on 1 July 2016; and
- performance over the four years ending 31 March 2017 for the UK RoE and US RoE measures (25% weighting overall, split by Executive Director as shown below) which will vest on 1 July 2017.

The performance achieved against the 2013 LTPP award performance targets, including the expected vesting percentage for the RoE measures, was:

Performance measure	Threshold – 25% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
TSR ranking (25% weighting)	Ranked at median of the comparator group (FTSE 100)	7.5 percentage points or more above median	7.72 percentage points above median	100.0%
Adjusted EPS (50% weighting)	EPS growth exceeds RPI increase by 3 percentage points	EPS growth exceeds RPI increase by 8 percentage points or more	Exceeded RPI increase by 6.7 percentage points	80.0%
UK RoE (12.5% weighting for the former CEO and current Finance Director; 25% weighting for the former Executive Director, UK)	RoE is equal to the average allowed regulatory return	RoE is 2 percentage points or more above the average allowed regulatory return	Exceeded average allowed regulatory return by 3.1 percentage points	100.0%
US RoE (12.5% weighting for the former CEO and current Finance Director; 25% weighting for the former Executive Director, US)	RoE is 1 percentage point below the average allowed regulatory return	RoE is 1 percentage point or more above the average allowed regulatory return	1.3 percentage points below the average allowed regulatory return	0.0%

The amounts vesting or expected to vest under the 2013 LTPP during the year and included in the 2016/17 single total figure are shown in the table below. The valuation is based on the following share prices:

- 1,105.5 pence ($74.36 per ADS) on the vesting date of 1 July 2016 for the EPS and TSR elements of the award; and
- average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence ($59.84 per ADS) for the RoE element of the award.

	Original number of share awards in 2013 LTPP	Overall vesting percentage (including expected vesting percentage for RoE measure)	Number of awards vesting (including expected vesting for RoE measure)	Dividend equivalent shares	Total value of awards vesting (including expected vesting for RoE measure) and dividend equivalent shares £'000
Andrew Bonfield	194,798	77.49%	150,959	20,583	1,855
Steve Holliday	230,844	86.66%	200,049	25,214	2,490
John Pettigrew	63,361	90.00%	57,021	8,198	694

For Steve Holliday, all values reflect the TSR and EPS portions of the award (75% of the total) which vested while he was on the Board. The 25% RoE portion which is due to vest in July 2017 will be included in the 'Payments to Past Directors' section in next year's Directors' Remuneration Report. Dean Seavers and Nicola Shaw were both appointed since the 2013 LTPP was awarded and therefore did not receive any awards under the 2013 LTPP.

Annual report on remuneration continued

No further awards will be made under this LTPP structure, the 2014 structure described below having been adopted at the 2014 AGM.

2014 LTPP

The 2014 award is determined by performance over the three years ending 31 March 2017 of RoE (50% weighting) and Value Growth (50% weighting) which will vest on 1 July 2017. For the UK and US Executive Directors at that time, the RoE component is split equally between Group RoE and UK and US RoE respectively. For the Chief Executive at that time and the Finance Director, the entire RoE component is based on Group RoE.

The performance achieved against the 2014 LTPP award performance targets was:

Performance measure	Threshold – 20% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
Group RoE (50% weighting for the former Chief Executive and Finance Director, 25% weighting for the former Executive Director, UK and the Executive Director, US)	11.0%	12.5% or more	11.93%	69.8%
UK RoE (25% weighting for the former Executive Director, UK)	RoE is 1 percentage point above the average allowed regulatory return	RoE is 3.5 percentage points or more above the average allowed regulatory return	3.3 percentage points above the average allowed regulatory return	92.5%
US RoE (25% weighting for the Executive Director, US)	90% of the average allowed regulatory return	105% or more of the average allowed regulatory return	85% of the average allowed regulatory return	0.0%
Value Growth (50% weighting)	10.0%	12.0% or more	12.0%	100.0%

The Value Growth outturn includes an amount to reflect the value added from the sale of a majority interest in the UK Gas Distribution business.

The amounts expected to vest under the 2014 LTPP for the performance period ended on 31 March 2017 and included in the 2016/17 single total figure are shown in the table below. The valuation is based on the average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence ($59.84 per ADS).

	Original number of share awards in 2014 LTPP	Overall vesting percentage	Number of awards vesting	Dividend equivalent shares	Total value of awards vesting and dividend equivalent shares £'000
Andrew Bonfield	248,470	84.89%	210,923	29,828	2,318
John Pettigrew	161,720	90.58%	146,482	20,715	1,610
Dean Seavers (ADSs)	40,966	67.44%	27,629	4,397	1,501

Nicola Shaw was appointed in July 2016 and therefore did not receive any share awards under the 2014 LTPP.

Last year's Directors' Remuneration Report covering remuneration for 2015/16 included an estimated vesting of the US and UK RoE portions of the 2012 LTPP award. These awards vested on 1 July 2016 and the performance achieved against the performance targets was the same as the expected vesting disclosed in the 2015/16 report. As a result of the actual achievement against the performance targets being the same as estimated, the vesting percentage and number of awards vesting are the same as disclosed in the 2015/16 report. However, the actual number of dividend equivalent shares varied as did the total value of awards vesting due to share price changes between the estimate and the actual date of vesting of the RoE portion. Specifically, the actual price on 1 July 2016 was 1,105.5 pence ($74.36 per ADS) rather than the estimate of 958 pence ($69.23 per ADS) disclosed in the 2015/16 report based on the average price from 1 January 2016 to 31 March 2016. As a result, the actual numbers of dividend equivalent shares granted for the 2012 LTPP were 23,001, 36,343, and 6,749 and the total values of awards that vested were £1,383,119, £2,185,387 and £424,568 for Andrew Bonfield, Steve Holliday and John Pettigrew, respectively.

Total pension benefits (audited information)

The table below provides details of the Executive Directors' pension benefits. Andrew Bonfield, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. Dean Seavers participated in Defined Contribution pension arrangements in the US. Steve Holliday participated in a Defined Benefit pension arrangement, under a salary sacrifice scheme in which the individual's salary is reduced by the employee pension contribution. An equivalent contribution is paid by the employer to the pension arrangement. There are no additional benefits on early retirement.

	Total contributions to DC arrangement £'000	Cash in lieu of pension contributions £'000	Accrued DB pension at 31 March 2017 £'000 pa	Increase in accrued DB pension over year £'000 pa	Reduction in salary due to FPS £'000	Increase/ (decrease) in any lump sum £'000	Value of pension benefit calculated using BIS methodology £'000	Normal retirement date
Andrew Bonfield	–	225	–	–	–	–	225	n/a
Steve Holliday	–	–	606	14	26	1	262	26/10/2016
John Pettigrew	–	248	–	–	–	–	248	26/10/2031
Dean Seavers	145	–	–	–	–	–	145	30/08/2025
Nicola Shaw	–	101	–	–	–	–	101	n/a

Notes:
Steve Holliday: In addition to the pension shown above, there was an accrued lump sum entitlement of £129,000. The increase to the lump sum over the year, net of inflation, was £647. The increase to the pension over the year, net of inflation, was £14,349. The total accrued pension and lump sum was split between two pension arrangements. A transfer payment from one of the pension arrangements was made in July 2016, leaving a remaining pension of £521,709 pa and a lump sum of £6,717. This pension and lump sum entered payment on the normal retirement date listed above.
John Pettigrew: John Pettigrew opted out of a DB pension arrangement on 31 March 2016 with a deferred pension and lump sum payable from a normal retirement date of 26 October 2031. There was no increase to these benefits over the period, net of inflation.

Dean Seavers: The average exchange rate for 2016/17 was $1.2767:£1. Through his participation in the 401(k) plan in the US (a DC arrangement) the Company made contributions worth £21,197. The Company also made contributions worth £123,983 to the Non-Qualified Executive Supplemental Retirement Plan which pays the portion of core contributions that cannot be paid under the qualified plan due to IRS limitations. The plan provides a supplemental top-up benefit through additional company contributions to yield an overall company contribution of 9% of pensionable pay, including both the qualified and non-qualified plan benefits. The retirement date shown reflects the typical retirement age in the US. The 401(k) plan does not have a retirement age. Benefits can be taken without penalty on leaving the Company from age 55 (subject to vesting requirements) or can be rolled over into another qualifying plan.
BIS calculation: In accordance with BIS methodology, the pension benefit for Andrew Bonfield, John Pettigrew, Nicola Shaw and Dean Seavers is calculated as the aggregate of contributions made to a DC-type pension plan and cash in lieu of contributions to a DC-type pension plan. In accordance with BIS disclosure regulations, the pension benefit for Steve Holliday is calculated as the increase in accrued DB-type pension over the year multiplied by 20 plus the increase in the lump sum, less the reduction in salary due to salary sacrifice. Each element is calculated separately and rounded to produce the numbers in the table on the previous page.

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2016/17, together with comparative figures for 2015/16:

	Fees £'000		Other emoluments £'000		Total £'000	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Nora Mead Brownell	**96**	94	**–**	–	**96**	94
Jonathan Dawson	**102**	99	**–**	–	**102**	99
Pierre Dufour	**11**	–	**–**	–	**11**	–
Therese Esperdy	**133**	128	**–**	–	**133**	128
Sir Peter Gershon	**499**	494	**68**	15	**567**	509
Paul Golby	**105**	103	**–**	–	**105**	103
Ruth Kelly	**84**	82	**–**	–	**84**	82
Mark Williamson	**124**	121	**–**	–	**124**	121
Total	**1,154**	1,121	**68**	15	**1,222**	1,136

Therese Esperdy: Fees for 2016/17 include £25,000 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a car and driver when required.

In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC.

The total emoluments paid to Executive and Non-executive Directors in the year was £19.5 million (2015/16: £12.8 million), though this figure includes two years' worth of LTPPs to the Executive Directors for 2016/17. Excluding the 2013 LTPP, the total emoluments would be £14.5 million.

LTPP (conditional award) granted during the financial year (audited information)

The face value of the awards is calculated using the volume weighted average share price at the date of grant. For Andrew Bonfield, John Pettigrew and Dean Seavers this is 28 June 2016 at a price of £10.21 per share and $69.1825 per ADS. For Nicola Shaw this is 12 July 2016 at a price of £11.05 per share.

LTPP	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andrew Bonfield	300% of salary	£2,255	20%	220,883	March 2019
John Pettigrew	350% of salary	£2,888	20%	282,810	March 2019
Dean Seavers	300% of salary	$3,075	20%	44,447 (ADSs)	March 2019
Nicola Shaw	300% of salary	£1,350	20%	122,164	March 2019

Performance period end date: The normal vesting date is in June 2019, following the performance period end.

Performance conditions for LTPP awards granted during the financial year (audited information)

	Weighting				Conditional share awards granted – 2016	
Performance measure	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE				25%	1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE			25%		90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value Growth	50%	50%	50%	50%	10.0%	12.0% or more

Payments for loss of office (audited information)

Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016.

Since his departure was due to retirement, which qualifies as 'good leaver' status, he is eligible to receive a prorated number of shares under the outstanding LTPPs. Awards for 261,506 remain outstanding after the prorating calculation for time served during the respective performance periods. Awards remain subject to performance conditions, measured at the normal performance measurement date. The prorated number of shares he is due to receive under the remaining portion of the 2013 LTPP and the full 2014 LTPP on 1 July 2017 will be disclosed in the 'Payments to past Directors' section next year, along with those vesting for Nick Winser and Tom King at that time.

Annual report on remuneration continued

Payments to past Directors (audited information)

Nick Winser stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Both Mr Winser and Mr King held awards over shares and ADSs, respectively, that were prorated according to their departure date. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time. Portions of these awards vested in July 2016 and pertain to the RoE portion of the 2012 LTPP and the TSR and EPS portions of the 2013 LTPP.

	Prorated number of share awards in 2012 (RoE portion) and 2013 (EPS and TSR portion) LTPPs	Overall vesting percentage	Number of awards vesting	Dividend equivalent shares	Total value of awards vesting and dividend equivalent shares £'000
Tom King (ADSs)	25,703	60.81%	15,629	2,105	1,033
Nick Winser	109,293	90.50%	98,914	13,760	1,246

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2017, had headroom of 4.08% and 7.98% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. Deferred share plan awards are not taken into account for these purposes until the end of the deferral period. Shares are valued for these purposes at the 31 March 2017 price, which was 1,012.51 pence per share ($63.39 per ADS).

The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons (as Non-executive Directors do not have a shareholding requirement).

The shareholding is as at 31 March 2017 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2017. Andrew Bonfield has met the shareholding requirement. As John Pettigrew, Dean Seavers and Nicola Shaw were relatively new in post, they have not yet met the requirement, but are expected to do so in 2020, 2020 and 2023 respectively, and will not be allowed to sell shares until this requirement is met. Non-executive Directors do not have a shareholding requirement.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2017, 1 July 2017, 1 July 2018, and 1 July 2019 for the LTPP 2013, LTPP 2014, LTPP 2015 and LTPP 2016 respectively. In each of April and May 2017 a further 15 shares were purchased on behalf of John Pettigrew. In April 2017 a further 15 shares were purchased on behalf of Andrew Bonfield and 14 shares in May 2017. The shares were purchased via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2017 and 17 May 2017.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Value of shares held as a multiple of current salary	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2013, 2014, 2015 and 2016)	Conditional share awards subject to continuous employment (DSP 2014)
Executive Directors						
Andrew Bonfield	400%	460,511	620%	3,230	777,720	47,048
John Pettigrew	500%	253,060	311%	4,286	639,442	14,350
Dean Seavers (ADSs)	400%	5,905	37%	–	130,214	–
Nicola Shaw	400%	–	–	–	122,164	–
Non-executive Directors						
Nora Mead Brownell (ADSs)	–	5,000	n/a	–	–	–
Jonathan Dawson	–	38,268	n/a	–	–	–
Pierre Dufour	–	–	n/a	–	–	–
Therese Esperdy (ADSs)	–	1,646	n/a	–	–	–
Sir Peter Gershon	–	87,194	n/a	–	–	–
Paul Golby	–	2,500	n/a	–	–	–
Ruth Kelly	–	800	n/a	–	–	–
Mark Williamson	–	4,726	n/a	–	–	–

Notes:
Overall: 2014 DSP relates to the Deferred Share Plan under which 50% of APP awards were deferred into shares. This plan was discontinued from the 2014/15 APP in lieu of 50% payment via shares with a two-year holding period.
Andrew Bonfield: On 31 March 2017 Andrew Bonfield held 3,230 options granted under the Sharesave Plan. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. On 1 April 2016, he exercised a sharesave option over 3,421 shares at the option price of 455 pence per share for expiration in September 2016 at a gain of £18,549. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: LTPP 2013: 48,699; LTPP 2014: 248,470; LTPP 2015: 259,668; LTPP 2016: 220,883. The number of conditional share awards subject to continuous employment is as follows: DSP 2014: 47,048.
John Pettigrew: On 31 March 2017 John Pettigrew held 4,286 options granted under the Sharesave Plan. 1,252 options were granted at a value of 599 pence per share and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: LTPP 2013: 15,840; LTPP 2014: 161,720; LTPP 2015: 179,072; LTPP 2016: 282,810. The number of conditional share awards subject to continuous employment is as follows: DSP 2014: 14,350.
Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: LTPP 2014: 40,966; LTPP 2015: 44,801; LTPP 2016: 44,447.
Nicola Shaw: The number of conditional share awards subject to performance conditions is as follows: LTPP 2016: 122,164.
Dean Seavers, Nora Mead Brownell and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares.

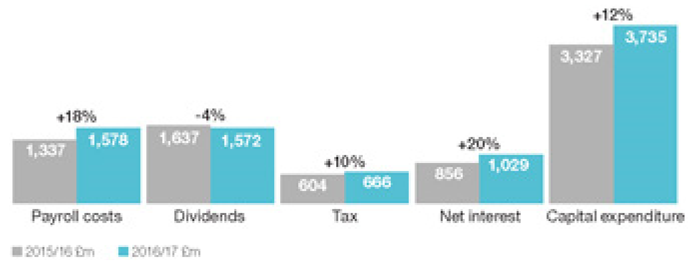
External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2017:

	Company	Retained fees
Andrew Bonfield	Kingfisher plc	£82,400
Nicola Shaw	Ellevio AB	£44,646 (517,000 SEK)

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements, and amounts relating to the UK Gas Distribution business.

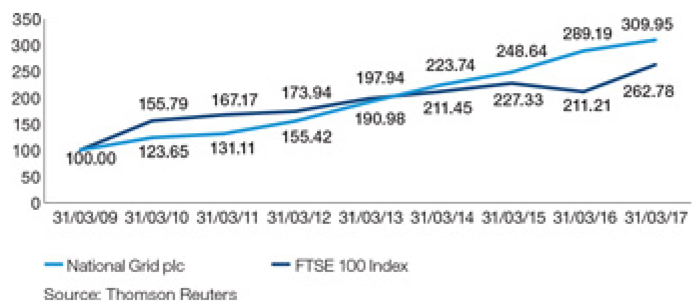


Performance graph and table

This chart shows National Grid plc's eight-year annual total shareholder return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK.

The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Chief Executive's pay in the last eight financial years

Steve Holliday was the Chief Executive throughout the seven-year period from 1 April 2010 to 31 March 2016. John Pettigrew became Chief Executive on 1 April 2016. His outcomes have been shown for the year 2016/17 in two ways, one to reflect the full total single figure of remuneration which includes the vesting outcomes of both the 2013 and 2014 LTPP awards, and the other to reflect the total single figure of remuneration using just the 2014 LTPP award to reflect his annualised total remuneration.

	Steve Holliday							John Pettigrew
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total single figure of remuneration (£'000)	3,931	3,738	3,539	3,170	4,801	4,845	5,151	4,636
Total single figure of remuneration – including only 2014 LTPP (£'000)								3,942
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%
PSP/LTPP (proportion of maximum vesting including expected vesting for RoE measure)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%

Total single figure of remuneration: The figure for 2016/17 includes both the 2013 and 2014 LTPP awards due to the transition from a four-year to a three-year period before all portions vest between the 2013 and 2014 LTPP grants, resulting in a one-time overlapping of vesting periods.
Total single figure of remuneration – including only 2014 LTPP: The total single figure of remuneration is restated for 2016/17 to include only the 2014 LTPP award in order to capture one year's worth of remuneration for comparison purposes.
PSP/LTPP: This vesting proportion for 2016/17 reflects combined vesting outcomes for the 2013 (90.00%) and 2014 (90.58%) LTPP awards.

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and APP between 2015/16 and 2016/17 compares with the percentage change in the average of each of those components of remuneration for non-union employees. The Committee views this group as the most appropriate comparator group, as it excludes employees represented by trade unions, whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£'000	£'000	Increase	£'000	£'000	Increase	£'000	£'000	Increase
	2016/17	2015/16		2016/17	2015/16		2016/17	2015/16	
Chief Executive	825	1,033	(20)%	497	41	1,112%	762	1,222	(38)%
Non-union employees (increase per employee)			3%			1%			6%

Chief Executive: John Pettigrew succeeded Steve Holliday as Chief Executive on 1 April 2016 and therefore the table compares Steve Holliday's pay from 2015/16 with John Pettigrew's pay in 2016/17. Taxable benefits for John Pettigrew in 2016/17 include a one-time relocation benefit.
Non-union employees: Pay data for US employees has been converted at $1.2767:£1 for 2016/17 ($1.4744:£1 for 2015/16).

Annual report on remuneration continued

Statement of implementation of remuneration policy in 2017/18

The remuneration policy for approval at the 2017 AGM will be implemented during 2017/18 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

	From 1 June 2017	From 1 June 2016	Increase
Andrew Bonfield	£771,285	£751,740	2.6%
John Pettigrew	£899,250	£825,000	9.0%
Dean Seavers	$1,050,625	$1,025,000	2.5%
Nicola Shaw	£490,500	£450,000	9.0%

APP measures for 2017/18

The APP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2017/18 annual report on remuneration.

Andrew Bonfield and John Pettigrew	Weighting
Adjusted EPS	35%
Group RoE	35%
Individual objectives	30%

Dean Seavers and Nicola Shaw	Weighting
UK or US Value Added	35%
UK or US RoE	35%
Individual objectives	30%

Performance measures for LTPP to be awarded in 2017

	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	50%	50%	11.0%	12.5% or more
Value Growth	50%	50%	50%	50%	10.0%	12.0% or more

Fees for NEDs

Committee chair fees are in addition to committee membership fees. Therese Esperdy was appointed as Non-executive Director to the National Grid USA Board in 2015 with an annual fee of £25,000 in addition to her current NED fees.

	From 1 June 2017 £'000	From 1 June 2016 £'000	Increase
Chairman	513	500	2.6%
Senior Independent Director	22	22	0%
Board fee (UK-based)	66	66	0%
Board fee (US-based)	78	78	0%
Committee membership fee	10.3	9	14.4%
Chair Audit Committee	19.4	19	2.1%
Chair Remuneration Committee	19.4	19	2.1%
Chair (other Board committees)	12.5	12.5	0%

Advisors to the Remuneration Committee

The Committee received advice during 2016/17 from independent remuneration consultants New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (part of Aon plc). NBS was selected as our advisor by the Committee from 1 August 2013 following a competitive tendering process.

Work undertaken by NBS included updating the Committee on trends in compensation and governance matters, advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior employees, and facilitating the development of the proposed 2017 remuneration policy. NBS is a member of the Remuneration Consultants Group and has signed up to that group's Code of Conduct. The Committee is satisfied that any potential conflicts were appropriately managed. NBS does not provide any other advice or services to the Company. In the year to 31 March 2017 the Committee paid a total of £148,313 to NBS, with fees being charged on a time incurred basis.

The Committee also received specialist advice from the following organisations:

- Alithos Limited: provision of TSR calculations for the LTPP (£3,125 paid in 2016/17);
- Linklaters LLP: advice relating to share schemes and to Directors' service contracts as well as providing other legal advice to the Company (£31,067 paid in 2016/17); and
- Willis Towers Watson: advice relating to the market assessments of the total reward packages for the Executive Committee, inclusive of the Executive Directors (£107,040 paid in 2016/17).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive; and of the Chief Executive on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Group Head of Reward & Performance and the Acting Group Head of Pensions. No other advisors have provided significant services to the Committee in the year.

Voting on 2013/14 Directors' remuneration policy at 2014 AGM

The voting figures shown refer to votes cast at the 2014 AGM and represent 61.76% of the issued share capital. In addition, shareholders holding 74 million shares abstained.

	For	Against
Number of votes	2,223,573,203	85,131,552
Proportion of votes	96.31%	3.69%

Voting on 2015/16 Annual Remuneration Report at 2016 AGM

The voting figures shown refer to votes cast at the 2016 AGM and represent 60.51% of the issued share capital. In addition, shareholders holding 62 million shares abstained.

	For	Against
Number of votes	2,305,471,537	68,788,657
Proportion of votes	97.10%	2.90%

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson
Chairman of the Remuneration Committee
17 May 2017

Financial Statements contents

Introduction to the Financial Statements

Throughout these financial statements we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on page 14), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our listing on both the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 75) continues to provide more detail as to how our auditors have planned and conducted their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report and Accounts. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 84 to 91. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 85 to 87, 89, 91, 97 to 98, 108 to 109, 111, 115 and 128.

Statement of Directors' responsibilities

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

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Remuneration Report in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law – United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis for that period.

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

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on pages 34 and 35, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the European Union and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' Report
The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Rules and Transparency Rules, comprising pages 08–71 and 172–201, was approved by the Board and signed on its behalf.

Strategic Report
The Strategic Report, comprising pages 02–31, was approved by the Board and signed on its behalf.

By order of the Board

Alison Kay
Group General Counsel & Company Secretary
17 May 2017
Company number: 4031152

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Report of Independent Registered Public Accounting Firm
to the Board of Directors and Shareholders of National Grid plc

Audit opinion for Form 20-F

In our opinion, the accompanying consolidated statement of financial position and the related consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2017 and 31 March 2016, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Additional Information section appearing on page 180 of the Annual Report and Accounts.

Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
United Kingdom
17 May 2017

Consolidated income statement
for the years ended 31 March

	Notes	2017 £m	2017 £m	2016 Re-presented[1] £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	2015 Re-presented[1] £m
Continuing operations							
Revenue	2(a)		**15,035**		13,212		13,357
Operating costs	3		**(11,827)**		(9,987)		(10,406)
Operating profit							
Before exceptional items and remeasurements	2(b)	**3,773**		3,214		3,034	
Exceptional items and remeasurements	4	**(565)**		11		(83)	
Total operating profit	2(b)		**3,208**		3,225		2,951
Finance income	5		**53**		22		36
Finance costs							
Before exceptional items and remeasurements	5	**(1,082)**		(878)		(908)	
Exceptional items and remeasurements	4,5	**(58)**		(99)		(165)	
Total finance costs	5		**(1,140)**		(977)		(1,073)
Share of post-tax results of joint ventures and associates	15		**63**		59		46
Profit before tax							
Before exceptional items and remeasurements	2(b)	**2,807**		2,417		2,208	
Exceptional items and remeasurements	4	**(623)**		(88)		(248)	
Total profit before tax	2(b)		**2,184**		2,329		1,960
Tax							
Before exceptional items and remeasurements	6	**(666)**		(604)		(543)	
Exceptional items and remeasurements	4,6	**292**		177		76	
Total tax	6		**(374)**		(427)		(467)
Profit after tax from continuing operations							
Before exceptional items and remeasurements		**2,141**		1,813		1,665	
Exceptional items and remeasurements	4	**(331)**		89		(172)	
Profit after tax from continuing operations			**1,810**		1,902		1,493
Profit after tax from discontinued operations							
Before exceptional items and remeasurements	9	**606**		576		516	
Exceptional items and remeasurements	9	**57**		116		2	
Gain on disposal of UK Gas Distribution after tax	9	**5,321**		–		–	
Profit after tax from discontinued operations	9		**5,984**		692		518
Total profit for the year (continuing and discontinued)							
Before exceptional items and remeasurements		**2,747**		2,389		2,181	
Exceptional items and remeasurements		**(274)**		205		(170)	
Gain on disposal of UK Gas Distribution after tax		**5,321**		–		–	
Total profit for the year			**7,794**		2,594		2,011
Attributable to:							
Equity shareholders of the parent							
From continuing operations		**1,810**		1,901		1,503	
From discontinued operations		**5,985**		690		516	
			7,795		2,591		2,019
Non-controlling interests							
From continuing operations		**–**		1		(10)	
From discontinued operations		**(1)**		2		2	
			(1)		3		(8)
Earnings per share[2]							
Basic							
From continuing operations	7(a)	**48.1p**		50.4p		39.4p	
From discontinued operations	7(a)	**17.6p**		18.3p		13.5p	
Gain on disposal of UK Gas Distribution	7(a)	**141.4p**		–		–	
	7(a)		**207.1p**		68.7p		52.9p
Diluted							
From continuing operations	7(b)	**47.9p**		50.2p		39.2p	
From discontinued operations	7(b)	**17.5p**		18.2p		13.5p	
Gain on disposal of UK Gas Distribution	7(b)	**140.8p**		–		–	
	7(b)		**206.2p**		68.4p		52.7p

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in notes 2 and 9.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Unaudited commentary on the consolidated income statement

The consolidated income statement shows income earned and expenditure for the year, with the difference being the overall profit for the year.

As a result of the sale of a 61% controlling interest in UK Gas Distribution, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'. Further information is included in note 9.

The commentary below relates to continuing operations only.

Revenue

Revenue for the year ended 31 March 2017 increased by £1,823 million to £15,035 million. This increase was driven by higher revenues in both our UK and US Regulated businesses. US Regulated revenues were £1,438 million higher year-on-year including favourable impact from foreign exchange, increased regulatory revenue allowances and favourable timing of recoveries. UK regulated revenues increased by £495 million, including increased regulatory allowances, timing over-recoveries and increased system balancing revenues. Revenue from Other activities decreased, including lower interconnector and metering income.

Operating costs

Operating costs for the year ended 31 March 2017 of £11,827 million were £1,840 million higher than the prior year. This increase in costs included a £576 million increase in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £1,264 million higher, principally due to the impact of foreign exchange rates alongside increased balancing services costs in the UK and higher depreciation as a result of newly commissioned assets.

Net finance costs

For the year ended 31 March 2017, net finance costs before exceptional items and remeasurements were £173 million higher than 2015/16 at £1,029 million, mainly as a result of the impact of the stronger US dollar, higher UK RPI inflation and increased levels of average net debt in continuing operations.

Tax

The tax charge on profits before exceptional items and remeasurements was £62 million higher than 2015/16. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year decreased to 23.7% (2015/16: 25.0%) reflecting settlements relating to prior years partially offset by an increased proportion of profits before tax being generated in the US.

Exceptional items and remeasurements

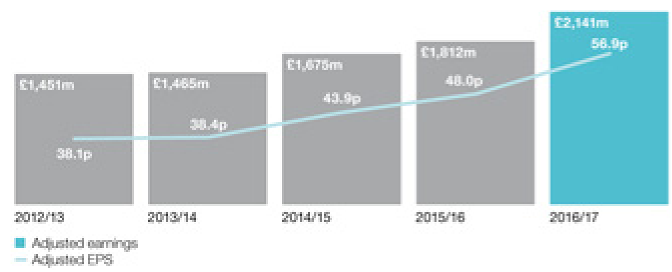
Operating costs for the year ended 31 March 2017 included a £68 million gain on remeasurements of commodity contracts, together with £633 million exceptional costs associated with environmental charges and gas holder decommissioning. In the previous year, operating costs included a net £11 million gain on remeasurements of commodity contracts.

Finance costs for the year ended 31 March 2017 included a loss of £58 million on financial remeasurements, relating to net losses on derivative financial instruments. For the previous year ended 31 March 2016, we incurred a loss of £99 million on financial remeasurements. Exceptional tax for 2016/17 was a credit of £292 million which represents tax credits on the exceptional items and remeasurements

Adjusted earnings and EPS from continuing operations

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 195 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations[1]



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2016/17 of 8.9p (19%).

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated for shares issued via scrip dividends.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2016/17	2015/16	% change
Weighted average (income statement)	1.28	1.47	(13)%
Year-end (statement of financial position)	1.25	1.44	(13)%

The movement in foreign exchange during 2016/17 has resulted in a £1,175 million increase in revenue, a £187 million increase in adjusted operating profit and a £189 million increase in operating profit.

above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate applicable from April 2020 from 18% to 17%.

Consolidated statement of comprehensive income
for the years ended 31 March

	Notes	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Profit after tax from continuing operations		**1,810**	1,902	1,493
Other comprehensive income/(loss) from continuing operations				
Items from continuing operations that will never be reclassified to profit or loss:				
Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations	23	**423**	410	(758)
Tax on items that will never be reclassified to profit or loss	6	**(277)**	(95)	296
Total items from continuing operations that will never be reclassified to profit or loss		**146**	315	(462)
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Exchange adjustments		**346**	69	175
Net gains/(losses) in respect of cash flow hedges		**70**	88	(86)
Transferred to profit or loss in respect of cash flow hedges		**(6)**	26	11
Net gains on available-for-sale investments		**81**	43	41
Transferred to profit or loss on sale of available-for-sale investments		**(25)**	–	(8)
Tax on items that may be reclassified subsequently to profit or loss	6	**(34)**	(39)	3
Total items from continuing operations that may be reclassified subsequently to profit or loss		**432**	187	136
Other comprehensive income/(loss) for the year, net of tax from continuing operations		**578**	502	(326)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations	9	**42**	71	(68)
Other comprehensive income/(loss) for the year, net of tax		**620**	573	(394)
Total comprehensive income for the year from continuing operations		**2,388**	2,404	1,167
Total comprehensive income for the year from discontinued operations	9	**6,026**	763	450
Total comprehensive income for the year		**8,414**	3,167	1,617
Attributable to:				
Equity shareholders of the parent				
From continuing operations		**2,389**	2,403	1,176
From discontinued operations		**6,026**	761	448
		8,415	3,164	1,624
Non-controlling interests				
From continuing operations		**(1)**	1	(9)
From discontinued operations		**–**	2	2
		(1)	3	(7)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in note 2.

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on defined benefit pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations
We had a net gain after tax of £146 million (2015/16: net gain of £315 million; 2014/15: net loss of £462 million) on our pension and other post-retirement benefit schemes which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments
Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a gain of £346 million (2015/16: £69 million gain; 2014/15: £175 million gain).

Net gains/(losses) in respect of cash flow hedges
The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £70 million (2015/16: £88 million gain; 2014/15: £86 million loss).

Consolidated statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves[1] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	439	1,336	14,895	(4,759)	11,911	8	11,919
Profit/(loss) for the year	–	–	2,019	–	2,019	(8)	2,011
Other comprehensive (loss)/income for the year	–	–	(472)	77	(395)	1	(394)
Total comprehensive income/(loss) for the year	–	–	1,547	77	1,624	(7)	1,617
Equity dividends	–	–	(1,271)	–	(1,271)	–	(1,271)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(338)	–	(338)	–	(338)
Issue of treasury shares	–	–	23	–	23	–	23
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	(3)	–	(3)	11	8
Share-based payments	–	–	20	–	20	–	20
Tax on share-based payments	–	–	4	–	4	–	4
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974
Profit for the year	–	–	2,591	–	2,591	3	2,594
Other comprehensive income for the year	–	–	414	159	573	–	573
Total comprehensive income for the year	–	–	3,005	159	3,164	3	3,167
Equity dividends	–	–	(1,337)	–	(1,337)	–	(1,337)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(267)	–	(267)	–	(267)
Issue of treasury shares	–	–	16	–	16	–	16
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	(5)	(5)
Share-based payments	–	–	22	–	22	–	22
Tax on share-based payments	–	–	2	–	2	–	2
At 31 March 2016	447	1,326	16,305	(4,523)	13,555	10	13,565
Profit/(loss) for the year	–	–	7,795	–	7,795	(1)	7,794
Other comprehensive income for the year	–	–	84	536	620	–	620
Total comprehensive income/(loss) for the year	–	–	7,879	536	8,415	(1)	8,414
Equity dividends	–	–	(1,463)	–	(1,463)	–	(1,463)
Scrip dividend related share issue[2]	2	(2)	–	–	–	–	–
Purchase of treasury shares	–	–	(189)	–	(189)	–	(189)
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	7	7
Share-based payments	–	–	35	–	35	–	35
Tax on share-based payments	–	–	3	–	3	–	3
At 31 March 2017	**449**	**1,324**	**22,582**	**(3,987)**	**20,368**	**16**	**20,384**

1. For further details of other equity reserves, see note 26.
2. Included within share premium account are costs associated with scrip dividends.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends
The Directors are proposing a final dividend of 29.10 pence per share, bringing the total dividend for the year to 44.27 pence per share, a 2.1% increase on 2015/16. The Directors intend to target increasing the annual dividend per share by at least the rate of RPI inflation for the foreseeable future.

Special dividend
Following completion of the sale of the majority interest in UK Gas Distribution, on 19 April 2017, the Directors approved a special interim dividend of 84.375 pence per existing ordinary share ($5.4224 per existing American Depositary Share).

Consolidated statement of financial position
as at 31 March

	Notes	2017 £m	2016 £m
Non-current assets			
Goodwill	10	**6,096**	5,315
Other intangible assets	11	**923**	887
Property, plant and equipment	12	**39,825**	43,364
Other non-current assets	13	**121**	82
Pension assets	23	**603**	410
Financial and other investments	14	**1,100**	482
Investments in joint ventures and associates	15	**2,083**	397
Derivative financial assets	16	**1,515**	1,685
Total non-current assets		**52,266**	52,622
Current assets			
Inventories and current intangible assets	17	**403**	437
Trade and other receivables	18	**2,782**	2,395
Current tax assets		**317**	77
Financial and other investments	14	**8,741**	2,998
Derivative financial assets	16	**192**	278
Cash and cash equivalents	19	**1,139**	127
Total current assets		**13,574**	6,312
Total assets		**65,840**	58,934
Current liabilities			
Borrowings	20	**(5,496)**	(3,611)
Derivative financial liabilities	16	**(1,054)**	(337)
Trade and other payables	21	**(3,438)**	(3,285)
Current tax liabilities		**(107)**	(252)
Provisions	24	**(416)**	(236)
Total current liabilities		**(10,511)**	(7,721)
Non-current liabilities			
Borrowings	20	**(23,142)**	(24,733)
Derivative financial liabilities	16	**(1,169)**	(1,732)
Other non-current liabilities	22	**(1,447)**	(2,071)
Deferred tax liabilities	6	**(4,479)**	(4,634)
Pensions and other post-retirement benefit obligations	23	**(2,536)**	(2,995)
Provisions	24	**(2,172)**	(1,483)
Total non-current liabilities		**(34,945)**	(37,648)
Total liabilities		**(45,456)**	(45,369)
Net assets		**20,384**	13,565
Equity			
Share capital	25	**449**	447
Share premium account		**1,324**	1,326
Retained earnings		**22,582**	16,305
Other equity reserves	26	**(3,987)**	(4,523)
Total shareholders' equity		**20,368**	13,555
Non-controlling interests		**16**	10
Total equity		**20,384**	13,565

The consolidated financial statements set out on pages 84 to 165 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

As at 31 March 2017, the Group's statement of financial position no longer includes the assets and liabilities of UK Gas Distribution (see note 9). The disposal of these assets and liabilities is referred to as 'disposals' in the commentaries below.

Goodwill and other intangible assets
Goodwill and intangibles increased by £817 million to £7,019 million as at 31 March 2017. This increase primarily relates to foreign exchange movements of £843 million and software additions of £234 million, partially offset by software amortisation of £164 million and disposals of £89 million.

Property, plant and equipment
Property, plant and equipment decreased by £3,539 million to £39,825 million as at 31 March 2017. This was principally due to capital expenditure of £4,089 million on the renewal and extension of our regulated networks and foreign exchange movements of £2,669 million, offset by depreciation of £1,535 million in the year and disposals of £8,700 million. See page 22 for further details of our capital expenditure.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £2,343 million to £3,304 million. This is primarily due to our 39% retained interest in UK Gas Distribution of £1,611 million (classified as an associate) and the related shareholder loan of £429 million, an increase in investments in joint ventures of £137 million, together with an increase in other investments of £95 million and foreign exchange movements of £115 million, offset by disposals of £44 million.

Inventories and current intangible assets, trade and other receivables and current tax assets
Inventories and current intangible assets, and trade and other receivables and current tax assets have increased by £593 million to £3,502 million as at 31 March 2017. This is primarily due to a net increase in trade and other receivables of £617 million (including a foreign exchange movement of £252 million) less disposals of £230 million and a £240 million increase in tax receivables. The increase in trade and other receivables reflects the colder winter, higher gas costs and BSIS cost recoveries. This is partly offset by a decrease in inventories and current intangible assets of £34 million.

Trade and other payables
Trade and other payables have increased by £153 million to £3,438 million, primarily due to a foreign exchange impact of £220 million and movements in the US related to colder weather and increased level of accruals offset by disposals of £423 million.

Current tax balances
Net current tax liability has changed by £385 million to a net current tax asset of £210 million. This is primarily due to a number of prior year settlements, reclassification from deferred tax of US net operating losses to offset against US current tax liabilities and cash payments exceeding tax liabilities following the additional costs incurred in relation to the disposal of the UK Gas Distribution business.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £245 million to £4,035 million as at 31 March 2017.

Total provisions increased by £869 million in the year. The underlying movements include additions of £633 million, primarily relating to an exceptional increase to the provision for estimated environmental restoration and remediation costs and other increases of £382 million as shown in note 24, together with foreign exchange movements of £188 million, offset by utilisation of £227 million in relation to all classes of provisions and disposals of £94 million. Other non-current liabilities reduced, principally due to £910 million of deferred income within UK Gas Distribution.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 90.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2016	(15)	(2,570)	(2,585)
Exchange movements	–	(345)	(345)
Current service cost	(76)	(156)	(232)
Net interest cost	–	(105)	(105)
Curtailments and other	(18)	(35)	(53)
Disposal of UK Gas Distribution	(34)	–	(34)
Actuarial gains/(losses)			
– on plan assets	2,890	444	3,334
– on plan liabilities	(3,431)	445	(2,986)
Employer contributions	528	545	1,073
As at 31 March 2017	**(156)**	**(1,777)**	**(1,933)**
Represented by:			
Plan assets	15,489	8,886	24,375
Plan liabilities	(15,645)	(10,663)	(26,308)
	(156)	**(1,777)**	**(1,933)**

The principal movements in net obligations during the year include net actuarial gains of £348 million and employer contributions of £1,073 million. Net actuarial gains include gains of £3,334 million arising on plan assets resulting from actual asset returns being greater than assumed returns which is based upon the discount rate at the start of the year. This is partially offset by actuarial losses on plan liabilities of £2,986 million arising as a consequence of a decrease in the real discount rate giving an actuarial loss of £3,431 million in the UK and an increase in the nominal discount rate resulting in actuarial gains of £445 million in the US.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items
There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate

Deferred tax balances
Deferred tax balances have decreased by £155 million to £4,479 million as at 31 March 2017. This is primarily due to the disposal of the UK Gas Distribution business offset by the deferred tax charge on actuarial gains in reserves and foreign exchange movements.

resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Consolidated cash flow statement
for the years ended 31 March

	Notes	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Cash flows from operating activities				
Total operating profit from continuing operations	2(b)	**3,208**	3,225	2,951
Adjustments for:				
Exceptional items and remeasurements	4	**565**	(11)	83
Depreciation, amortisation and impairment		**1,481**	1,311	1,202
Share-based payments charge		**32**	21	18
Gain on exchange of associate for available-for-sale investment		**–**	(49)	–
Changes in working capital		**151**	416	311
Changes in provisions		**(181)**	(58)	(41)
Changes in pensions and other post-retirement benefit obligations		**(768)**	(293)	(235)
Cash flows relating to exceptional items		**(36)**	(40)	(17)
Cash generated from operations – continuing operations		**4,452**	4,522	4,272
Tax paid		**(132)**	(230)	(251)
Net cash inflows from operating activities – continuing operations		**4,320**	4,292	4,021
Net cash inflows from operating activities – discontinued operations		**909**	1,076	986
Cash flows from investing activities				
Acquisition of investments		**(137)**	(116)	–
Proceeds from sale of investments in subsidiaries		**5,454**	–	–
Purchases of intangible assets		**(223)**	(196)	(171)
Purchases of property, plant and equipment		**(3,296)**	(2,855)	(2,578)
Disposals of property, plant and equipment		**18**	4	9
Dividends received from joint ventures and associates		**99**	72	79
Interest received		**51**	23	37
Net movements in short-term financial investments[2]		**(5,600)**	(391)	1,157
Net cash flow used in investing activities – continuing operations		**(3,634)**	(3,459)	(1,467)
Net cash flow used in investing activities – discontinued operations		**(680)**	(577)	(534)
Cash flows from financing activities				
Purchase of treasury shares		**(189)**	(267)	(338)
Proceeds from issue of treasury shares		**18**	16	23
Purchase of own shares		**(6)**	(6)	(7)
Proceeds received from loans		**2,463**	2,726	1,534
Repayment of loans		**(1,616)**	(896)	(2,839)
Net movements in short-term borrowings and derivatives		**90**	(730)	623
Interest paid		**(839)**	(711)	(700)
Exceptional finance costs on the redemption of debt		**–**	–	(152)
Dividends paid to shareholders		**(1,463)**	(1,337)	(1,271)
Net cash flow used in financing activities – continuing operations		**(1,542)**	(1,205)	(3,127)
Net cash flow from/(used in) financing activities – discontinued operations[3]		**1,611**	(123)	(126)
Net increase/(decrease) in cash and cash equivalents	27(a)	**984**	4	(247)
Disposal of bank overdraft in UK Gas Distribution		**15**	–	–
Exchange movements		**16**	4	24
Net cash and cash equivalents at start of year		**124**	116	339
Net cash and cash equivalents at end of year[4]	19	**1,139**	124	116

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in note 2.
2. Includes the impact of proceeds from the sale of UK Gas Distribution being transferred to short-term financial investments on 31 March 2017.
3. Included within net cash flows used in financing activities – discontinued operations are cash flows relating to the liability management programme, comprising £4.8 billion of debt issued and term debt raised, offset by £3.2 billion in respect of bond buybacks.
4. Net of bank overdrafts of £nil (2016: £3 million; 2015: £3 million).

Unaudited commentary on the consolidated cash flow statement

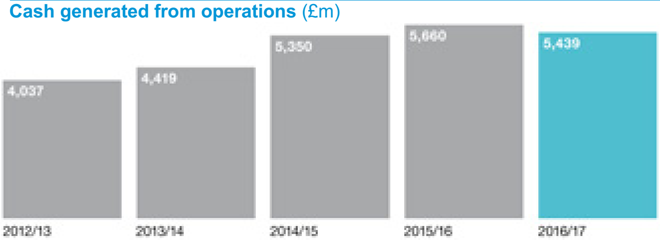
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses and the disposal of UK Gas Distribution (Investing activities); and the cash raised from debt, share issues or share buybacks, restructuring of borrowings for the disposal of UK Gas Distribution and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flow to net debt

	2017 £m	2016 £m
Cash generated from continuing operations	**4,452**	4,522
Cash generated from discontinued operations	**987**	1,138
	5,439	5,660
Net capital investment – continuing operations	**(3,638)**	(3,163)
Net capital investment – discontinued operations	**(605)**	(577)
	(4,243)	(3,740)
Business net cash flow	**1,196**	1,920
Net interest paid – continuing operations	**(788)**	(688)
Net interest paid – discontinued operations	**(1,167)**	(123)
	(1,955)	(811)
Tax paid – continuing operations	**(132)**	(230)
Tax paid – discontinued operations	**(78)**	(62)
	(210)	(292)
Dividends paid	**(1,463)**	(1,337)
Disposal of UK Gas Distribution	**11,344**	–
Other cash movements	**(79)**	(185)
Non-cash movements	**(2,782)**	(705)
Decrease/(increase) in net debt	**6,051**	(1,410)
Opening net debt	**(25,325)**	(23,915)
Closing net debt	**(19,274)**	(25,325)

Cash generated from operations (Total)

Cash generated from operations (£m)



Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues, and hence cash flows, particularly in the winter months.

For the year ended 31 March 2017, cash flow from continuing operations decreased by £70 million to £4,452 million. Cash inflows due to changes in working capital decreased by £265 million over the prior year, principally in the US due to the collection of high winter 2015 billings last

Cash flow from discontinued operations decreased by £151 million to £987 million mainly due to £139 million of exceptional transaction costs incurred in relation to the disposal of the UK Gas Distribution business.

Net capital investment

Net capital investment for continuing operations in the year of £3,638 million was £475 million higher than the prior year. This was a result of higher spend in our US Regulated business and favourable exchange rates of £280 million, partially offset by lower spend in UK Electricity Transmission. Further details of our capital investment can be seen on page 22. Net capital investment for discontinued operations of £605 million was £28 million higher than 2015/16.

Net interest paid (including exceptional interest)

Net interest paid for continuing operations was £788 million, £100 million higher than 2015/16 primarily due to the impact of exchange rates on our US dollar denominated finance costs. Net interest paid and exceptional finance costs for discontinued operations in 2016/17 were £1,167 million, £1,044 million higher than 2015/16 primarily due to £1,052 million of debt buyback costs incurred as part of the Group's liability management programme in relation to the disposal of the UK Gas Distribution business.

Tax paid

Tax paid for continuing operations in the year to 31 March 2017 was £132 million, £98 million lower than the prior year. This was primarily due to lower taxable profits as a result of costs incurred in relation to the disposal of the UK Gas Distribution business.

Dividends paid

Dividends paid in the year ended 31 March 2017 amounted to £1,463 million. This was £126 million higher than 2015/16, reflecting the increase in the final dividend paid in August 2016, together with a lower average scrip dividend take-up in the year.

Disposal of UK Gas Distribution

This reflects the cash proceeds received of £5,454 million and the £5,890 million of net debt deconsolidated on disposal of UK Gas Distribution (see note 27).

Other cash movements

Other cash flows principally arise from movements in treasury shares, including the cost of repurchasing shares as part of the scrip buyback programme of £189 million (2015/16: £267 million), partly offset by dividends from joint ventures and associates of £99 million, £27 million higher than 2015/16.

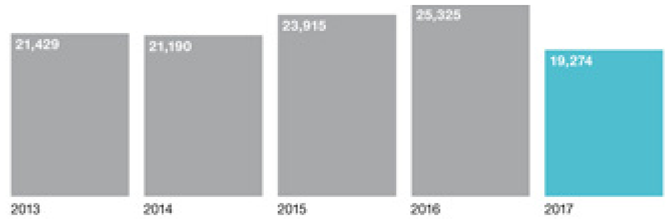
Non-cash movements

The non-cash movements are predominantly due to the strengthening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar strengthened from $1.44 at 31 March 2016 to $1.25 at 31 March 2017. Other non-cash movements primarily arise from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March (£m)

year. The outflow of £768 million from changes in pensions and other post-retirement obligations was £475 million higher than 2015/16 due to higher levels of contributions into the UK and US schemes.



Notes to the consolidated financial statements
– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2018 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 17 May 2017.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2017 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The financial information relating to prior years has been re-presented as a result of the disposal of the UK Gas Distribution business, as described in C below. The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

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

A. Going concern
The Directors considered it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

B. Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries (other than relating to UK Gas Distribution as described in C below), joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

C. Disposal of UK Gas Distribution
As described further in note 9, on 8 December 2016, the Group entered into a sale and purchase agreement to dispose of a 61% controlling stake in the UK Gas Distribution business. The disposal completed on 31 March 2017 and the Group has retained a 39% interest in the business. As a result all assets and liabilities of UK Gas Distribution were deemed to be disposed and a 39% interest reacquired. The 39% retained interest is classified as an associate on the basis that the Group retains significant influence over the business through its retained stake. The Group has the ability to appoint 4 of the 12 directors to the Board of Quadgas HoldCo Limited.

In addition, the Group entered into a 'Further Acquisition Agreement' over a further 14% interest. Refer to note 9 for further details.

The Group classified UK Gas Distribution as held for sale as of 8 December 2016, when it became highly probable that the value of the business to the Group would be recovered through sale rather than continuing ownership. As UK Gas Distribution represents a separate major line of business, the business is classified as a discontinued operation in the consolidated income statement. This has resulted in the re-presentation of comparative financial information in the consolidated income statement and the consolidated statement of comprehensive income, as well as earnings per share (EPS) split between continuing and discontinued operations.

share of net assets of the joint venture or associate, less any provision for impairment.

1. Basis of preparation and recent accounting developments continued

D. Foreign currencies
Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income – note 16.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve within other equity reserves – note 26.

E. Areas of judgement and key sources of estimation uncertainty
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Concerning the sale of UK Gas Distribution – note 9:
  - the date from which the business was classified as held for sale;
  - the classification of the retained interest in the business, and the fair value attributable to it;
  - the accounting implications of the Further Acquisition Agreement (FAA) and the embedded put/call options;
  - the allocation of financing costs between the continuing Group and discontinued operations; and
  - the identification and classification of costs associated with the disposal.
- Categorisation of certain items as exceptional items and the definition of adjusted earnings – notes 4 and 7;
- Energy purchase contracts as being for normal purchase, sale or usage – note 28; and
- Recognition of surpluses in respect of defined benefit pension schemes – note 23.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 11 and 12;
- estimation of liabilities for pensions and other post-retirement benefits – note 23;
- valuation of financial instruments and derivatives – notes 16 and 30; and
- environmental and decommissioning provisions – note 24.

Concerning the sale of UK Gas Distribution, the principal estimate concerns the fair value of the retained interest, which is described further in note 9.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analyses in note 33.

New IFRS accounting standards effective for the year ended 31 March 2017
The Group has adopted the following amendments to standards:

- Annual improvements to IFRSs 2012-2014 Cycle;
- Amendments to IFRS 11 'Joint Arrangements';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 'Property, Plant and Equipment'; and
- Amendments to IAS 38 'Intangible Assets'.

The adoption of these amendments has had no material impact on the Group's results or financial statement disclosures.

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted
The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the Group's financial statements.

i) IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' (IFRS 9) is effective for National Grid in the year ending 31 March 2019. The changes to IFRS 9 principally impact the accounting for the classification of financial instruments, impairment of financial instruments and hedge accounting. The key change influences the future assessment of impairments using an 'expected loss' method rather than the current 'incurred loss' method; this will result in impairments typically being recorded earlier.

To date we have not identified any significant changes to the accounting for financial liabilities, the impact on accounting for financial assets and derivatives is anticipated to be limited.

We are currently evaluating the impact of the hedge accounting guidance in the new standard. It is possible that changes in requirements will allow the opportunity to apply hedge accounting in a wider range of scenarios.

ii) IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) is effective for National Grid in the year ending 31 March 2019. The new standard provides enhanced detail and a five step revenue recognition approach to reflect the transfer of goods and services to customers.

The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements in the UK and US are under way and will continue into 2017/18 as we finalise our assessment of the impact of the new standard. Based on work to date we have identified four key areas that require further analysis to determine the impact on the Group:

- whether we act as principal or as agent for revenues collected on behalf of the Scottish and Offshore transmission operators. This is a gross versus net presentational issue that does not have an impact on earnings;
- the timing of recognition of customer contributions for connections in the UK and US. In our electricity business in the UK we currently recognise customer contributions over time as we have an ongoing licence condition to maintain that connection over its life. In our gas business in the UK, we recognise customer contributions when the connection is completed (the licence conditions do not require connections to be maintained over the life of the connection and therefore do not have deferred revenue for connections). In the US, revenue for customer contributions is recognised once work on connections is completed. IFRS 15 requires revenue to be recognised as control over the distinct and separable service is transferred to our customers. We are assessing whether this has an impact on the timing of our revenue recognition;

We plan to apply IFRS 15 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

iii) IFRS 16 'Leases'
IFRS 16 'Leases' (IFRS 16) is effective for National Grid in the year ending 31 March 2020, subject to EU endorsement. The Group enters into a significant number of operating lease transactions as well as certain power purchase arrangements. Under IFRS 16, our operating leases will be accounted for on the balance sheet as 'right-of-use' assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The outcome of our conclusions will have an impact on how we account for our operating leases and power purchase arrangements. We are also performing an assessment of our revenue and service contracts to determine whether we have the right to use assets under those contracts and whether they fall within the scope of IFRS 16. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

iv) Other
In addition, the following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- Amendments to IAS 12 'Income Taxes';
- Amendments to IFRS 2 'Share Based Payments';
- Amendments to IAS 7 'Statement of Cash Flows';
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Investment Property'.

Effective dates remain subject to the EU endorsement process.

The Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

- the timing of recognition of revenue in our metering business; and
- accounting for certain trade receivables in the US where there is historical evidence of irrecoverability.

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). We monitor and manage the performance of these operating segments on a day-to-day basis.

Our strategy in action
We own a portfolio of businesses that range from businesses with high levels of investment and growth (such as UK Electricity Transmission) to cash generative developed assets with lower investment requirements (such as National Grid Metering, included within Other activities).

We generate the majority of our revenue from our regulated operating segments in the UK and US. We work with our regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. When investing in Other activities we aim to leverage our core capabilities to deliver higher returns for investors.

Our regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under our regulatory agreements and any such timing differences are adjusted through future prices. Our Other activities earn revenue in line with their contractual terms.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. It excludes value added (sales) tax and intra-group sales.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year-end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of revenue as stipulated by regulatory agreements and explained further on pages 174 to 179.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is National Grid's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the earnings performance of operations on the basis of operating profit before exceptional items and remeasurements (see note 4).

There has been no change to the way in which our businesses have reported internally during the year. However, for the purposes of this note, the reporting structure for the year ended 31 March 2017 has been updated to show the UK Gas Distribution segment within discontinued operations together with the results of our interest in Xoserve Limited, which was previously included within Other activities. Discontinued operations are solely within the UK geographical area. National Grid Ventures formed on 1 April 2017 and the impact of this change will be reflected in 2017/18.

The following table describes the main activities for each operating segment:

UK Electricity Transmission	High voltage electricity transmission networks in Great Britain.
UK Gas Transmission	The gas transmission network in Great Britain and UK LNG storage activities.
US Regulated	Gas distribution networks, electricity distribution networks and high voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; a UK LNG import terminal; US LNG operations; US unregulated transmission pipelines; together with corporate activities.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

(a) Revenue

	2017			2016 Re-presented[1]			2015 Re-presented[1]		
	Total sales £m	**Sales between segments £m**	**Sales to third parties £m**	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segments:									
UK Electricity Transmission	**4,439**	**(29)**	**4,410**	3,977	(20)	3,957	3,754	(12)	3,742
UK Gas Transmission	**1,080**	**(99)**	**981**	1,047	(109)	938	1,022	(107)	915
US Regulated	**8,931**	**–**	**8,931**	7,493	–	7,493	7,986	–	7,986
Other activities	**713**	**–**	**713**	824	–	824	714	–	714
Total from continuing operations	**15,163**	**(128)**	**15,035**	13,341	(129)	13,212	13,476	(119)	13,357

Discontinued operations – UK geographical area (note 9)	**1,902**	**(15)**	**1,887**	1,949	(46)	1,903	1,886	(42)	1,844
	17,065	**(143)**	**16,922**	15,290	(175)	15,115	15,362	(161)	15,201
Split by geographical areas – continuing operations:									
UK			**6,064**			5,619			5,347
US			**8,971**			7,593			8,010
			15,035			13,212			13,357

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

2. Segmental analysis continued

(b) Operating profit
A reconciliation of the operating segments' measure of profit to total profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements			After exceptional items and remeasurements		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Operating segments – continuing operations:						
UK Electricity Transmission	**1,372**	1,173	1,237	**1,361**	1,173	1,237
UK Gas Transmission	**511**	486	437	**507**	486	437
US Regulated	**1,713**	1,185	1,164	**1,278**	1,196	1,081
Other activities	**177**	370	196	**62**	370	196
Total from continuing operations	**3,773**	3,214	3,034	**3,208**	3,225	2,951
Discontinued operations – UK geographical area (note 9)	**894**	882	829	**894**	860	829
Segment result	**4,667**	4,096	3,863	**4,102**	4,085	3,780
Split by geographical area – continuing operations:						
UK	**2,118**	2,007	1,991	**1,988**	2,007	1,991
US	**1,655**	1,207	1,043	**1,220**	1,218	960
	3,773	3,214	3,034	**3,208**	3,225	2,951
Reconciliation to profit before tax:						
Operating profit from continuing operations	**3,773**	3,214	3,034	**3,208**	3,225	2,951
Finance income	**53**	22	36	**53**	22	36
Finance costs	**(1,082)**	(878)	(908)	**(1,140)**	(977)	(1,073)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Profit before tax from continuing operations	**2,807**	2,417	2,208	**2,184**	2,329	1,960
Profit before tax from discontinued operations (note 9)	**748**	725	668	**742**	703	668
	3,555	3,142	2,876	**2,926**	3,032	2,628

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

(c) Capital expenditure

	Net book value of property, plant and equipment and other intangible assets			Capital expenditure			Depreciation and amortisation		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Operating segments:									
UK Electricity Transmission	**12,515**	11,907	11,276	**1,027**	1,084	1,074	**(421)**	(390)	(376)
UK Gas Transmission	**4,165**	4,140	4,132	**214**	186	184	**(186)**	(178)	(172)
US Regulated	**21,638**	17,490	15,664	**2,247**	1,856	1,501	**(642)**	(535)	(452)
Other activities	**2,430**	2,291	2,290	**247**	201	199	**(232)**	(208)	(190)
Total from continuing operations	**40,748**	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Discontinued operations – UK geographical area	**–**	8,423	8,163	**588**	566	512	**(217)**	(303)	(292)
	40,748	44,251	41,525	**4,323**	3,893	3,470	**(1,698)**	(1,614)	(1,482)
Split by geographical area – continuing operations:									
UK	**18,102**	17,491	16,910	**1,357**	1,386	1,352	**(753)**	(715)	(691)
US	**22,646**	18,337	16,452	**2,378**	1,941	1,606	**(728)**	(596)	(499)
	40,748	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Asset type:									
Property, plant and equipment	**39,825**	35,074	32,713	**3,507**	3,130	2,786	**(1,348)**	(1,207)	(1,115)
Non-current intangible assets	**923**	754	649	**228**	197	172	**(133)**	(104)	(75)
Total from continuing operations	**40,748**	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Discontinued operations	**–**	8,423	8,163	**588**	566	512	**(217)**	(303)	(292)
	40,748	44,251	41,525	**4,323**	3,893	3,470	**(1,698)**	(1,614)	(1,482)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Total non-current assets other than financial instruments and pension assets located in the UK and US were £20,045 million and £29,003 million respectively as at 31 March 2017 (31 March 2016: UK £26,261 million, US £23,784 million; 31 March 2015: UK £25,278 million, US £21,790 million).

Unaudited commentary on the results of our principal operations by segment – continuing operations

As a business, we have three measures of operating profit (from continuing operations) that are used on a regular basis and disclosed in this Annual Report. The disposal of UK Gas Distribution is analysed separately in note 9.

Statutory operating profit: This is operating profit as calculated under International Financial Reporting Standards (IFRS). Statutory operating profit by segment is shown in note 2 on page 96.

Adjusted operating profit: Adjusted operating profit (business performance) excludes items that if included could distort understanding of our performance for the year and the comparability between periods. Further details of items that are excluded in adjusted operating profit are shown in note 4 on page 101.

Regulated financial performance: This is particularly relevant for our UK operations and is a measure of operating profit that reflects the impact of the businesses' regulatory arrangements when presenting financial performance.

Reconciliations between statutory and adjusted operating profit can be found on page 194. Reconciliations between adjusted operating profit and regulated financial performance for UK Electricity Transmission and UK Gas Transmission can be found on page 98.

Commentary on segmental adjusted operating profit results – continuing operations

We have summarised the results of our principal operating segments here by segment to provide direct reference to the results as disclosed in note 2. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items and remeasurements) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2017, revenue in the UK Electricity Transmission segment increased by £462 million to £4,439 million and adjusted operating profit increased by £199 million to £1,372 million.

The revenue growth of £462 million principally reflected the recovery of higher pass-through costs such as system balancing costs, increased regulated revenue allowances and the impact of higher volumes. Net revenue after deducting pass-through costs was £199 million higher. Regulated controllable costs were £25 million lower reflecting reduced environmental costs. Depreciation and amortisation was £31 million higher, reflecting the continued capital investment programme. Other costs were £6 million lower than prior year including lower asset disposal costs.

Capital expenditure decreased by £57 million compared with last year to £1,027 million.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £33 million to £1,080 million and adjusted operating profit increased by £25 million to £511 million.

After deducting pass-through costs, net revenue was £31 million higher than prior year, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. Regulated controllable costs were £2 million higher than last year, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than last year.

Capital expenditure increased to £214 million, £28 million higher than last year.

US Regulated

Revenue in our US Regulated business increased by £1,438 million to £8,931 million and adjusted operating profit increased by £528 million to £1,713 million.

The stronger US dollar increased revenue and operating profit in the year by £1,160 million and £184 million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange) resulting in an increase in net regulated revenue of £509 million at constant currency. Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation was £24 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Our capital expenditure in the US continued to increase with £2,247 million of expenditure in the year, £391 million more than in 2015/16. At constant currency, this represented a £104 million increase in investment driven by higher investment in new and replacement gas mains.

Other activities

Revenue in Other activities decreased by £111 million to £713 million and adjusted operating profit decreased by £193 million to £177 million.

In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs. Capital expenditure in our Other activities was £46 million higher than last year at £247 million.

Unaudited commentary on the results of our principal operations by segment – continuing operations continued

Commentary on UK regulated financial performance

The regulated financial performance calculation provides a measure of the performance of the regulated operations before the impacts of interest and taxation. It adjusts reported operating profit under IFRS to reflect the impact of the businesses' regulatory arrangements when presenting financial performance.

Adjustments in calculating regulatory financial performance
The principal adjustments from reported operating profit to UK regulated financial performance are:

Movement in regulatory 'IOUs': Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but may be required to be returned to customers in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate.

Performance RAV: UK performance efficiencies are in part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements.

Pension adjustment: Cash payments against pension deficits in the UK are recoverable under regulatory contracts.

3% RAV indexation: Future UK revenue allowances are expected to be set using an asset base adjusted for inflation. These will be billed in future periods and recognised under IFRS at that time. A 3% RPI inflation assumption is used, reflecting the long-run expectation.

Deferred taxation adjustment: Future UK revenues are expected to recover cash taxation costs, including the unwinding of deferred taxation balances created in the current year.

Regulatory depreciation: UK regulated revenues include an allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment: The regulatory remuneration of costs incurred is split between in-year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles.

UK Electricity Transmission
Regulated financial performance for UK Electricity Transmission decreased by 1% to £1,184 million from £1,195 million, principally reflecting the lower achieved operational return, driven by lower totex outperformance.

Reconciliation of regulated financial performance to operating profit	2017 £m	2016 £m	% change
Reported operating profit	**1,372**	1,173	17
Movement in regulatory 'IOUs'	**(288)**	(147)	
Deferred taxation adjustment	**62**	80	
RAV indexation (average 3% long-run inflation)	**356**	339	
Regulatory vs IFRS depreciation difference	**(379)**	(368)	
Fast/slow money adjustment	**34**	92	
Pensions	**(47)**	(54)	
Performance RAV created	**74**	80	
Regulated financial performance	**1,184**	1,195	(1)

UK Gas Transmission
Regulated financial performance for UK Gas Transmission decreased to £499 million from £535 million, down 7%. This reflected a lower operational return on equity, mainly as a result of the reduction in legacy incentives income.

Reconciliation of regulated financial performance to operating profit	2017 £m	2016 £m	% change
Reported operating profit	**511**	486	5
Movement in regulatory 'IOUs'	**(120)**	(80)	
Deferred taxation adjustment	**39**	45	
RAV indexation (average 3% long-run inflation)	**168**	166	
Regulatory vs IFRS depreciation difference	**(21)**	(18)	
Fast/slow money adjustment	**(14)**	18	
Pensions	**(53)**	(77)	
Performance RAV created	**(11)**	(5)	
Regulated financial performance	**499**	535	(7)

3. Operating costs

Below we have presented separately certain items included in our operating costs from continuing operations. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items and remeasurements			Exceptional items and remeasurements			Total		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Depreciation and amortisation	**1,481**	1,311	1,190	**–**	–	–	**1,481**	1,311	1,190
Payroll costs	**1,578**	1,337	1,292	**–**	–	–	**1,578**	1,337	1,292
Purchases of electricity	**1,143**	1,304	1,615	**46**	8	70	**1,189**	1,312	1,685
Purchases of gas	**1,241**	986	1,379	**22**	(19)	13	**1,263**	967	1,392
Rates and property taxes	**1,042**	899	856	**–**	–	–	**1,042**	899	856
Balancing Services Incentive Scheme	**1,120**	907	874	**–**	–	–	**1,120**	907	874
Payments to other UK network owners	**1,008**	971	801	**–**	–	–	**1,008**	971	801
Other	**2,649**	2,283	2,316	**497**	–	–	**3,146**	2,283	2,316
	11,262	9,998	10,323	**565**	(11)	83	**11,827**	9,987	10,406
Operating costs include:									
Inventory consumed							**296**	274	339
Operating leases							**98**	91	89
Research and development expenditure							**14**	19	16

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

(a) Payroll costs

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Wages and salaries[2]	**1,852**	1,553	1,436
Social security costs	**145**	120	112
Other pension costs (note 23)	**209**	201	190
Share-based payments	**32**	21	18
Severance costs (excluding pension costs)	**5**	4	3
	2,243	1,899	1,759
Less: payroll costs capitalised	**(665)**	(562)	(467)
Total payroll costs	**1,578**	1,337	1,292

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Included within wages and salaries are US other post-retirement benefit costs of £53 million (2016: £52 million; 2015: £39 million). For further information refer to note 23.

(b) Number of employees

	31 March 2017	**Monthly average 2017**	31 March 2016 Re-presented[1]	Monthly average 2016 Re-presented[1]	31 March 2015 Re-presented[1]	Monthly average 2015 Re-presented[1]
UK	**6,265**	**6,291**	6,224	6,067	5,882	5,830
US	**15,867**	**15,752**	14,830	14,775	14,573	14,434
Total number of employees	**22,132**	**22,043**	21,054	20,842	20,455	20,264

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission of gas or the transmission of electricity. At 31 March 2017, there were 1,858 (2016: 1,865; 2015: 1,766) employees in other operations, excluding shared services.

3. Operating costs continued

(c) Key management compensation

	2017 £m	2016 £m	2015 £m
Short-term employee benefits	**8**	9	10
Post-employment benefits	**1**	1	9
Share-based payments	**6**	4	4
Total key management compensation	**15**	14	23

Key management compensation relates to the Board, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments
Details of Executive Directors' emoluments are contained in the audited part of the Remuneration Report on page 63 and those of Non-executive Directors on page 67.

(e) Auditors' remuneration
Auditors' remuneration is presented below in accordance with the requirements of the Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2017 £m	2016 £m	2015 £m
Audit fees payable to the parent Company's auditors and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements[1]	**1.5**	1.3	1.3
The auditing of accounts of any associate of the Company	**13.7**	9.2	8.1
Other services supplied[2]	**4.6**	3.6	3.3
	19.8	14.1	12.7
Total other services[3]			
Tax fees[4]:			
Tax compliance services	**0.4**	0.5	0.4
Tax advisory services	**0.1**	–	0.1
All other fees:			
Other assurance services[5]	**4.6**	4.3	0.1
Services relating to corporate finance transactions not covered above[6]	**5.9**	1.6	–
Other non-audit services not covered above[7]	**6.3**	2.5	0.3
	17.3	8.9	0.9
Total auditors' remuneration	**37.1**	23.0	13.6

1. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2017, 2016 and 2015, and the review of interim financial statements for the six month periods ended 30 September 2016, 2015 and 2014 respectively.
2. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.
3. There were no audit related fees as described in Item 16C(b) of Form 20-F.
4. Tax fees include amounts charged for tax compliance and tax advice.
5. Principally amounts relating to assurance services provided in relation to the sale of UK Gas Distribution and data assurance work in respect of financial information included in US rate filings.
6. Vendor due diligence and other transaction services in relation to the sale of UK Gas Distribution.
7. Fees for other non-audit services – principally assisting the Company with separation activities in relation to the sale of UK Gas Distribution.

PwC has contracted with Ofgem to assess the UK gas industry's readiness for the introduction of new settlement processes and systems. Fees for these services are paid by Xoserve Limited, a subsidiary of National Grid (until 31 March 2017), on behalf of the industry, under instruction from Ofgem. As PwC has no contract with or duty of care to Xoserve Limited, these amounts are not included above.

In addition, fees of £0.4 million were incurred in 2017 in relation to the audits of the pension schemes of the Company (2016: £0.1 million; 2015: £0.2 million).

The Audit Committee considers and makes recommendations to the Board, to be put to shareholders for approval at each AGM, in relation to the appointment, re-appointment, removal and oversight of the Company's independent auditors. The Board of Directors, in accordance with a resolution approved at the 2016 AGM, is authorised to agree the auditors' remuneration. The Audit Committee considers and approves the audit fees on behalf of the Board in accordance with the Competition and Market Authority Audit Order 2014. The Board of Directors will seek to renew this authority at the 2017 AGM. Details of our policies and procedures in relation to non-audit services to be provided by the independent auditors are set out within page 44 of the Corporate Governance Report.

Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act. Of the above services, none were prohibited.

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Management utilises an exceptional items framework that has been discussed and approved by the Group Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

Exceptional items and remeasurements from continuing operations

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Included within operating profit			
Exceptional items:			
Environmental charges	**(526)**	–	–
Gas holder demolition costs	**(107)**	–	–
	(633)	–	–
Remeasurements – commodity contracts	**68**	11	(83)
	(565)	11	(83)
Included within finance costs			
Exceptional items:			
Debt redemption costs	**–**	–	(131)
Remeasurements – net losses on derivative financial instruments	**(58)**	(99)	(34)
	(58)	(99)	(165)
Total included within profit before tax	**(623)**	(88)	(248)
Included within tax			
Exceptional credits arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK corporation tax rate	**94**	162	4
Tax on exceptional items	**227**	–	28
Tax on remeasurements	**(29)**	15	44
	292	177	76
Total exceptional items and remeasurements after tax	**(331)**	89	(172)
Analysis of total exceptional items and remeasurements after tax			
Exceptional items after tax	**(312)**	162	(99)
Remeasurements after tax	**(19)**	(73)	(73)
Total exceptional items and remeasurements after tax	**(331)**	89	(172)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

4. Exceptional items and remeasurements continued

Further detail of operating exceptional items specific to 2016/17
In the US, the Group's most significant environmental liabilities relate to former manufacturing gas plant (MGP) facilities formerly owned or operated by the Company. The sites are subject to both state and federal law in the US. Environmental reserves are re-evaluated at each reporting period. The expenditure is expected to be largely recoverable from rate payers but under IFRS, no asset can be recorded for this. During the second half of 2016/17, the Group updated its assessment of the gross remediation costs at three key sites in New York, resulting in an increase of £481 million on an undiscounted basis.

The charge booked reflects the Group's best estimate of future cash outflow, based on notices received from state and federal authorities, and plans developed in response, supported by external consultants where appropriate. In some cases, judgement is also required regarding the Group's share of the estimated cost, principally at sites where other parties are also potentially liable but where no cost sharing agreement exists.

A provision of £107 million has been made for the demolition of certain non-operational gas holders in the UK. Following the disposal of UK Gas Distribution, the land on which the gas holders are sited was transferred to the Group's UK property division. The Group's property division maximises our return from our land portfolio and therefore a constructive obligation exists to demolish the gas holders.

Also included within the above are charges relating to the impact of a change in the real discount rate from 2% to 1% on our provisions.

Remeasurements
Commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.

Net losses or gains on derivative financial instruments comprise losses or gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Items included within tax
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.

Deferred taxes at the reporting date have been measured using these enacted tax rates and reflected in these financial statements, resulting in a deferred tax credit. This credit is presented as exceptional, reflecting its nature.

5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on our pensions and other post-retirement assets, which is offset by the interest payable on pensions and other post-retirement obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, significant debt redemption costs are typically treated as exceptional (note 4).

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	**28**	22	28
Gains on disposal of available-for-sale investments	**25**	–	8
	53	22	36
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	**(107)**	(111)	(98)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(59)**	(28)	(35)
Other borrowings	**(927)**	(792)	(836)
Derivatives	**(8)**	37	51
Unwinding of discount on provisions	**(73)**	(69)	(67)
Other interest	**(17)**	(27)	(7)
Less: interest capitalised[2]	**109**	112	84
	(1,082)	(878)	(908)
Exceptional items			
Debt redemption costs	**–**	–	(131)
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements[3]:			
Ineffectiveness on derivatives designated as:			
Fair value hedges[4]	**33**	39	36
Cash flow hedges	**(12)**	(15)	(13)
Net investment hedges	**–**	–	2
Net investment hedges – undesignated forward rate risk	**60**	(34)	33
Derivatives not designated as hedges or ineligible for hedge accounting	**(139)**	(89)	(92)
	(58)	(99)	(165)
	(1,140)	(977)	(1,073)
Net finance costs from continuing operations	**(1,087)**	(955)	(1,037)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.4% (2016: 3.3%; 2015: 3.8%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £18 million (2016: £19 million; 2015: £24 million). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.
3. Includes a net foreign exchange loss on financing activities of £264 million (2016: £407 million loss; 2015: £636 million gain) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.
4. Includes a net loss on instruments designated as fair value hedges of £27 million (2016: £34 million gain; 2015: £219 million gain) and a net gain of £60 million (2016: £5 million gain; 2015: £162 million loss) arising from fair value adjustments to the carrying value of debt.

6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

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

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

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

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Tax charged/(credited) to the income statement – continuing operations

	2017 **£m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Tax before exceptional items and remeasurements	**666**	604	543
Exceptional tax on items not included in profit before tax (note 4)	**(94)**	(162)	(4)
Tax on other exceptional items and remeasurements	**(198)**	(15)	(72)
Tax on total exceptional items and remeasurements (note 4)	**(292)**	(177)	(76)
Total tax charge from continuing operations	**374**	427	467

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax as a percentage of profit before tax

	2017 **%**	2016 Re-presented[1] %	2015 Re-presented[1] %
Before exceptional items and remeasurements – continuing operations	**23.7**	25.0	24.6
After exceptional items and remeasurements – continuing operations	**17.1**	18.3	23.8

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

6. Tax continued

The tax charge for the year can be analysed as follows:

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Current tax			
UK corporation tax at 20% (2016: 20%; 2015: 21%)	**225**	239	218
UK corporation tax adjustment in respect of prior years	**(47)**	(5)	(7)
	178	234	211
Overseas corporation tax	**–**	38	51
Overseas corporation tax adjustment in respect of prior years	**1**	(19)	(62)
	1	19	(11)
Total current tax from continuing operations	**179**	253	200
Deferred tax			
UK deferred tax	**(9)**	(80)	69
UK deferred tax adjustment in respect of prior years	**(18)**	24	7
	(27)	(56)	76
Overseas deferred tax	**224**	229	138
Overseas deferred tax adjustment in respect of prior years	**(2)**	1	53
	222	230	191
Total deferred tax from continuing operations	**195**	174	267
Total tax charge from continuing operations	**374**	427	467

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax charged/(credited) to other comprehensive income and equity

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Current tax			
Share-based payments	**(4)**	(1)	(6)
Available-for-sale investments	**6**	5	5
Deferred tax			
Available-for-sale investments	**8**	12	2
Cash flow hedges	**20**	22	(10)
Share-based payments	**1**	–	1
Remeasurements of net retirement benefit obligations	**277**	95	(296)
	308	133	(304)
Total tax recognised in the statement of comprehensive income from continuing operations	**311**	134	(299)
Total tax recognised in the statement of comprehensive income from discontinued operations	**10**	23	(11)
Total tax relating to share-based payments recognised directly in equity from continuing operations	**(3)**	(1)	(5)
Total tax relating to share-based payments recognised directly in equity from discontinued operations	**–**	(1)	1
	318	155	(314)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax continued

The tax charge for the year after exceptional items and remeasurements, for the continuing business, is lower (2016: lower; 2015: higher) than the standard rate of corporation tax in the UK of 20% (2016: 20%; 2015: 21%):

	Before exceptional items and remeasurements 2017 £m	**After exceptional items and remeasurements 2017 £m**	Before exceptional items and remeasurements 2016 Re-presented[1] £m	After exceptional items and remeasurements 2016 Re-presented[1] £m	Before exceptional items and remeasurements 2015 Re-presented[1] £m	After exceptional items and remeasurements 2015 Re-presented[1] £m
Profit before tax from continuing operations						
Before exceptional items and remeasurements	**2,807**	**2,807**	2,417	2,417	2,208	2,208
Exceptional items and remeasurements	**–**	**(623)**	–	(88)	–	(248)
Profit before tax from continuing operations	**2,807**	**2,184**	2,417	2,329	2,208	1,960
Profit before tax from continuing operations multiplied by UK corporation tax rate of 20% (2016: 20%; 2015: 21%)	**561**	**437**	483	465	464	412
Effect of:						
Adjustments in respect of prior years[2]	**(67)**	**(67)**	2	1	(8)	(9)
Expenses not deductible for tax purposes[3]	**35**	**442**	25	114	26	322
Non-taxable income[3]	**(24)**	**(425)**	(25)	(112)	(20)	(320)
Adjustment in respect of foreign tax rates	**180**	**104**	124	129	91	77
Impact of share-based payments	**1**	**1**	(1)	(1)	(4)	(4)
Deferred tax impact of change in UK and US tax rates	**–**	**(94)**	–	(162)	–	(4)
Other[4]	**(20)**	**(24)**	(4)	(7)	(6)	(7)
Total tax charge from continuing operations	**666**	**374**	604	427	543	467

	%	**%**	Re-presented[1] %	Re-presented[1] %	Re-presented[1] %	Re-presented[1] %
Effective tax rate – continuing operations	**23.7**	**17.1**	25.0	18.3	24.6	23.8

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Prior year adjustment is primarily due to agreement of prior period tax returns.
3. The post exceptional adjustments primarily represent the impact of the Group's net investment hedging following significant currency fluctuations in the dollar.
4. Other primarily comprises of the benefit due to enhanced deduction available for land remediation expenditure and the presentation of the tax on joint ventures and associates.

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 (OECD'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. We will continue to monitor developments and assess the potential impact for National Grid of these and any further initiatives.

While 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.

As the Group's presence is mainly in the UK and US, we do not envisage a significant impact on the Group following the UK government's decision to invoke Article 50 to leave the EU.

In the US, there is a possibility of 'Tax Reform' which, if enacted, will likely include substantial changes to the federal taxation system. The changes under consideration include a significant reduction in the statutory corporate tax rate, deductibility of capital expenditures and elimination of many established business tax deductions. The Company continues to monitor various legislative proposals and developments impacting corporate taxation.

6. Tax continued

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax (assets)/liabilities						
Deferred tax assets at 31 March 2015	(1)	(18)	(1,337)	(64)	(1,186)	(2,606)
Deferred tax liabilities at 31 March 2015	6,657	–	160	5	81	6,903
At 1 April 2015	6,656	(18)	(1,177)	(59)	(1,105)	4,297
Exchange adjustments	141	1	(33)	(1)	(30)	78
Charged/(credited) to income statement	266	3	47	(6)	(203)	107
Charged to other comprehensive income and equity	–	–	125	13	14	152
At 31 March 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Deferred tax assets at 31 March 2016	(1)	(14)	(1,201)	(66)	(1,408)	(2,690)
Deferred tax liabilities at 31 March 2016	7,064	–	163	13	84	7,324
At 1 April 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Exchange adjustments and other[1]	681	1	(144)	(7)	(50)	481
Charged/(credited) to income statement	402	–	177	23	(481)	121
Charged to other comprehensive income and equity	–	1	264	46	5	316
Disposal of UK Gas Distribution	(1,072)	–	(6)	–	5	(1,073)
At 31 March 2017	**7,074**	**(12)**	**(747)**	**9**	**(1,845)**	**4,479**
Deferred tax assets at 31 March 2017	(1,093)	(12)	(1,036)	(10)	(1,943)	(4,094)
Deferred tax liabilities at 31 March 2017	8,167	–	289	19	98	8,573
	7,074	(12)	(747)	9	(1,845)	4,479

1. Exchange adjustments and other comprises of foreign exchange arising on translation of the US dollar deferred tax balances together with a reclassification of £143 million being the opening deferred tax balance in respect of US net operating losses to offset against US current tax liabilities.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £4,479 million (2016: £4,634 million). Deferred tax asset of £798 million (2016: £667 million) has been recognised in respect of net operating losses.

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2017 £m	2016 Re-presented[1] £m
Capital losses	**362**	232
Non-trade deficits	**4**	5
Trading losses	**9**	–

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

The capital losses and non-trade deficits that arise in the UK are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arising in the US can be carried forward for up to 20 years.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised at the reporting date is approximately £1,101 million (2016: £502 million). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of UK tax legislation, which largely exempts overseas dividends received, the temporary differences are unlikely to lead to additional tax.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on tax

Tax strategy
National Grid manages its tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. As a regulated public utility we are very conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Management responsibility and oversight for our tax strategy, which is approved by the Finance Committee, rests with the Finance Director and the Group Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total UK tax contribution (continuing and discontinued operations combined)
This year we have again disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year-on-year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

The most significant amounts making up the 2016/17 total tax contribution are shown in the charts below:

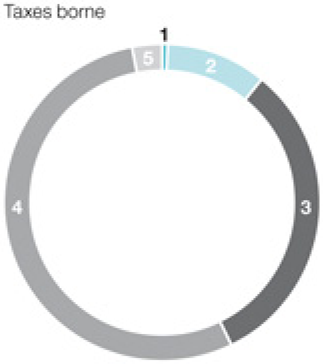
For 2016/17 our total tax contribution to the UK Exchequer was £1.5 billion (2015/16: £1.6 billion). Taxes borne in 2016/17 were £644 million, a decrease of 8.4% on taxes borne in 2015/16 of £703 million primarily due to lower corporation tax payments in the current year. The main reason for this is the impact of our debt redemption costs during the year ended 31 March 2017, which reduced corporation tax instalment payments due for that year. Our taxes collected were £887 million, a reduction of 1.3% on 2015/16 of £899 million. We anticipate our total tax contribution to fall next year following the sale of the UK Gas Distribution business on 31 March 2017.

Our 2015/16 total tax contribution of £1.6 billion resulted in National Grid being the 15th highest contributor of UK taxes based on the results of the Hundred Group's 2016 Total Tax Contribution Survey, a position commensurate with the size of our business and capitalisation relative to other contributors to the Survey. In 2015, we were in 13th position. In 2016 we ranked 9th in respect of taxes borne; in 2015, we were in 7th position.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The Hundred Group's 2016 Total Tax Contribution Survey ranks National Grid in 3rd place in respect of UK capital expenditure on fixed assets, up from 5th place in 2015. National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

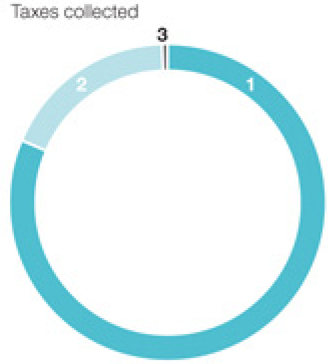
UK total tax contribution 2016/17 (continuing and discontinued operations combined)

Taxes borne



	£m
1. VAT	1
2. PAYE and NIC	67
3. UK corporation tax	207
4. Business rates	351
5. Other	18
Total	**644**

Taxes collected



	£m
1. VAT	725
2. PAYE and NIC	161
3. Other	1
Total	**887**

Unaudited commentary on tax continued

Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2016/17.

The tax charge for the Group from continuing operations as reported in the income statement is £374 million (2015/16: £427 million[1]). The UK tax charge is £151 million (2015/16: £178 million[1]) and UK corporation tax paid was £129 million (2015/16: £223 million[1]), with the principal differences between these two measures as follows:

Reconciliation on continuing operations of UK total tax charge to UK corporation tax paid	Year ended 31 March 2017 £m	2016 Re-presented[1] £m
Total UK tax charge (current tax £178m (2016: £234m[1]) and deferred tax credit £27m (2016: credit £56m[1]))	**151**	178
Adjustment for non-cash deferred tax credit	**27**	56
Adjustments for current tax credit in respect of prior years	**47**	5
UK current tax charge	**225**	239
UK corporation tax instalment payments not payable until the following year	**(216)**	(95)
UK corporation tax instalment payments in respect of prior years paid in current year	**120**	79
UK corporation tax paid	**129**	223

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £375 million (2015/16: £237 million) of which £362 million (2015/16: £232 million) are capital losses in the UK as set out on page 107. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Finance Director is Chairman of the Hundred Group. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business, with the aim of openly contributing to the debate and development of UK tax legislation. We undertake similar activities in the US, where the Company is an active member in the Edison Electric Institute, the American Gas Association and the Organization for International Investment.

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance subtotals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

(a) Basic earnings per share

	Earnings 2017 £m	**Earnings per share 2017 pence**	Earnings 2016[1] £m	Earnings per share 2016 (restated)[1,2] pence	Earnings 2015[1] £m	Earnings per share 2015 (restated)[1,2] pence
Adjusted earnings from continuing operations	**2,141**	**56.9**	1,812	48.0	1,675	43.9
Exceptional items after tax from continuing operations	**(312)**	**(8.3)**	162	4.3	(99)	(2.6)
Remeasurements after tax from continuing operations	**(19)**	**(0.5)**	(73)	(1.9)	(73)	(1.9)
Earnings from continuing operations	**1,810**	**48.1**	1,901	50.4	1,503	39.4
Adjusted earnings from discontinued operations	**607**	**16.1**	574	15.2	514	13.4
Exceptional items after tax from discontinued operations	**62**	**1.6**	116	3.1	2	0.1
Remeasurements after tax from discontinued operations	**(5)**	**(0.1)**	–	–	–	–
Gain on disposal of UK Gas Distribution	**5,321**	**141.4**	–	–	–	–
Earnings from discontinued operations	**5,985**	**159.0**	690	18.3	516	13.5
Total adjusted earnings	**2,748**	**73.0**	2,386	63.2	2,189	57.3
Total exceptional items after tax	**(250)**	**(6.7)**	278	7.4	(97)	(2.5)
Total remeasurements after tax	**(24)**	**(0.6)**	(73)	(1.9)	(73)	(1.9)
Gain on disposal of UK Gas Distribution	**5,321**	**141.4**	–	–	–	–
Total earnings	**7,795**	**207.1**	2,591	68.7	2,019	52.9

	2017 millions	2016 millions	2015 millions
Weighted average number of shares – basic[2]	**3,763**	3,774	3,817

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(b) Diluted earnings per share

	Earnings 2017 £m	**Earnings per share 2017 pence**	Earnings 2016[1] £m	Earnings per share 2016 (restated)[1,2] pence	Earnings 2015[1] £m	Earnings per share 2015 (restated)[1,2] pence
Adjusted earnings from continuing operations	**2,141**	**56.7**	1,812	47.8	1,675	43.7
Exceptional items after tax from continuing operations	**(312)**	**(8.3)**	162	4.3	(99)	(2.6)
Remeasurements after tax from continuing operations	**(19)**	**(0.5)**	(73)	(1.9)	(73)	(1.9)
Earnings from continuing operations	**1,810**	**47.9**	1,901	50.2	1,503	39.2
Adjusted earnings from discontinued operations	**607**	**16.0**	574	15.1	514	13.4
Exceptional items after tax from discontinued operations	**62**	**1.6**	116	3.1	2	0.1
Remeasurements after tax from discontinued operations	**(5)**	**(0.1)**	–	–	–	–
Gain on disposal of UK Gas Distribution	**5,321**	**140.8**	–	–	–	–
Earnings from discontinued operations	**5,985**	**158.3**	690	18.2	516	13.5
Total adjusted earnings	**2,748**	**72.7**	2,386	63.0	2,189	57.1
Total exceptional items after tax	**(250)**	**(6.7)**	278	7.3	(97)	(2.5)
Total remeasurements after tax	**(24)**	**(0.6)**	(73)	(1.9)	(73)	(1.9)
Gain on disposal of UK Gas Distribution	**5,321**	**140.8**	–	–	–	–
Total earnings	**7,795**	**206.2**	2,591	68.4	2,019	52.7

	2017 millions	2016 millions	2015 millions
Weighted average number of shares – diluted[2]	**3,780**	3,790	3,834

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(c) Reconciliation of basic to diluted average number of shares

	2017 millions	2016 (restated)[1] millions	2015 (restated)[1] millions
Weighted average number of ordinary shares – basic	**3,763**	3,774	3,817
Effect of dilutive potential ordinary shares – employee share plans	**17**	16	17
Weighted average number of ordinary shares – diluted	**3,780**	3,790	3,834

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

8. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

	2017			2016			2015		
	Pence per share	**Cash dividend paid £m**	**Scrip dividend £m**	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	**15.17**	**540**	**32**	15.00	532	31	14.71	531	26
Final dividend in respect of the prior year	**28.34**	**923**	**151**	28.16	805	248	27.54	740	289
	43.51	**1,463**	**183**	43.16	1,337	279	42.25	1,271	315

Following completion of the sale of the majority interest in UK Gas Distribution, on 19 April 2017, the Directors declared that an aggregate of approximately £3.2 billion would be returned to shareholders through a special dividend of 84.375p per existing ordinary share ($5.4224 per existing American Depositary Share). The special dividend is to be paid to those shareholders on the register of members at 19 May 2017.

The Directors are proposing a final dividend for the year ended 31 March 2017 of 29.10p per share that will absorb approximately £1 billion of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 16 August 2017 to shareholders who are on the register of members at 2 June 2017 (subject to Shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend per share growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full-year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

9. Discontinued operations

As a result of the sale of a 61% controlling interest in UK Gas Distribution, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'.

The gain recognised by the Group on sale is analysed in the detail of the note below. All costs associated with the transaction, including those associated with separation and setting up UK Gas Distribution are shown as a deduction from the proceeds received.

Our results and cash flows of significant assets or businesses sold during the year are shown separately from our continuing operations. Assets and businesses are classified as held for sale when their carrying amounts are recovered through sale rather than through continuing use. It only meets the held for sale condition when the assets are ready for immediate sale in their present condition, management is committed to the sale and it is highly probable that the sale will complete within one year. Depreciation ceases on assets and businesses when they are classified as held for sale and the assets and businesses are impaired if the proceeds less sale costs fall short of the carrying value.

Disposal of UK Gas Distribution
On 8 December 2016 the Group entered into a sale agreement with a consortium of long term infrastructure investors, to dispose of a 61% equity interest in the UK Gas Distribution business, principally comprising the Group's equity and debt interests in National Grid Gas Distribution Limited together with certain other assets (principally property and a 45% interest in Xoserve Limited). The Consortium comprises Macquarie Infrastructure and Real Assets (MIRA), Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

The transaction was contingent on merger clearance from the European Commission, which was received on 16 March 2017, and the transaction completed on 31 March 2017. The Group sold its 100% equity interest in UK Gas Distribution to Quadgas HoldCo Limited, a newly incorporated UK limited company 61% owned by Quadgas Investments Bidco Limited and 39% by the Group's subsidiary National Grid Holdings One plc. In exchange, the Group received cash consideration of £3,679 million and has recognised a shareholder loan receivable of £429 million and a 39% equity interest in Quadgas HoldCo Limited.

In addition, as part of the disposal process, a newly incorporated financing subsidiary of Quadgas HoldCo Limited raised £1,775 million of long term debt, secured against the shares in National Grid Gas Distribution Limited, and remitted cash received from this transaction to the Group. This amount has been treated as part of the net cash proceeds from the transaction totalling £5,454 million.

The final amount of consideration remains subject to completion adjustments which may result in a further gain/loss on disposal within discontinued operations to be reported in 2017/18.

On 31 March 2017, the Group also entered into a Further Acquisition Agreement (FAA) with the Consortium over a 14% interest (relating to both our equity and the shareholder loan interests), which includes the pricing mechanism, based on the price paid for the initial 61% interest, and an annualised escalation factor. The FAA contains put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019.

The FAA is a derivative, and the assumptions which will be used to determine fair value are specific to the contract and not readily observable in active markets. Accordingly, it is classified under IFRS 7 'Financial Instruments: Disclosures' as a level 3 financial instrument. As the FAA was entered into on an arm's length basis at the balance sheet date its fair value is nil because the exercise price reflects fair value on 31 March 2017. At future reporting dates, this derivative financial instrument may either be in an asset or a liability position, depending principally on business performance against the Consortium's expectations and movements in interest rates that could impact the annualised escalation factor.

The UK Gas Distribution business met the criteria to be classified as held for sale at 8 December 2016, and depreciation and amortisation (circa £25 million per month) on tangible and intangible fixed assets ceased from this date. The disposal of UK Gas Distribution resulted in a £5.3 billion gain on disposal.

The business represents a reportable segment and a separate major line of business and accordingly has been presented as a discontinued operation in the consolidated income statement, consolidated statement of comprehensive income and the consolidated cash flow statement. The segmental analysis in note 2 has also been re-presented.

In anticipation of the disposal, a process to separate the business from the other UK operations was undertaken. This involved separation activities in relation to finance, pensions, human resources, IT, treasury and operational management. These processes took place in the year leading up to the sale announcement and physical separation of the businesses occurred in early 2017. The UK Gas Distribution business was hived out from National Grid Gas plc into a newly incorporated statutory entity on 1 October 2016.

With respect to treasury activities, a Group-wide financing exercise was undertaken in order to: a) ensure that the proportion of debt to equity financing in National Grid Gas Distribution Limited was in line with the requirements of its regulatory licence and the financing structure of the business more generally; and b) to optimise the mix of debt in the continuing businesses. The financing exercise involved the buyback of debt and derivatives in both of the Group's UK regulated subsidiaries (National Grid Gas plc and National Grid Electricity Transmission plc) as well as the novation of certain instruments to National Grid Gas Distribution Limited, and the issue of new debt by National Grid Gas Distribution Limited whilst under the Group's control prior to the sale completion. Since all these activities formed part of a single exercise, which would not have been undertaken in the absence of the sale, all costs have been allocated to discontinued operations.

9. Discontinued operations continued

The presentation of the 2016/17 income statement is required to be split between continuing and discontinued operations and to re-present results for previous periods in a comparable manner:

- Revenues, operating expenses and operating profits: Discontinued results are closely aligned to the previously disclosed UK Gas Distribution segment, with the results of Xoserve Limited re-allocated from within Other activities.
- Interest costs: Since UK Gas Distribution was not independently financed prior to its sale it is necessary to allocate the Group's overall financing cost between continuing and discontinued operations. In doing so, the Group has presented the results of the continuing business on a basis consistent with how it expects to finance the Group in future periods, to aid comparability in future periods. Interest costs associated with debt and derivatives which remain in the Group as at 31 March 2017 have been attributed to the continuing Group in full. Interest cost relating to instruments bought back in the period since the disposal process started, debt novated across, and debt and derivatives issued by UK Gas Distribution as part of the financing exercise have been included within discontinued operations. The interest costs in the comparative periods for discontinued operations only includes interest that relates to the debt bought back in 2016/17 and the debt novated into UK Gas Distribution in 2016/17.
- Tax: Tax follows the amount of revenues, operating costs and interest allocated to discontinued operations. Tax on exceptional items and remeasurements includes an allocation of tax credits arising from the change in tax rates.

Income statement – discontinued operations
for the years ended 31 March

	2017 £m	**2017 £m**	2016 £m	2016 £m	2015 £m	2015 £m
Revenue		**1,887**		1,903		1,844
Operating costs		**(993)**		(1,043)		(1,015)
Operating profit						
Before exceptional items and remeasurements	**894**		882		829	
Exceptional items and remeasurements[1]	**–**		(22)		–	
Total operating profit from discontinued operations		**894**		860		829
Finance costs						
Before exceptional items and remeasurements	**(146)**		(157)		(161)	
Exceptional items and remeasurements[2]	**(6)**		–		–	
Total finance costs		**(152)**		(157)		(161)
Profit before tax from discontinued operations						
Before exceptional items and remeasurements	**748**		725		668	
Exceptional items and remeasurements	**(6)**		(22)		–	
Total profit before tax from discontinued operations		**742**		703		668
Tax from discontinued operations						
Before exceptional items and remeasurements	**(142)**		(149)		(152)	
Exceptional items and remeasurements	**63**		138		2	
Total tax from discontinued operations		**(79)**		(11)		(150)
Profit after tax from discontinued operations						
Before exceptional items and remeasurements	**606**		576		516	
Exceptional items and remeasurements	**57**		116		2	
Profit after tax from discontinued operations		**663**		692		518
Gain on disposal of UK Gas Distribution	**5,009**		–		–	
Tax on gain on disposal of UK Gas Distribution	**312**		–		–	
Gain on disposal of UK Gas Distribution after tax		**5,321**		–		–
Total profit after tax from discontinued operations		**5,984**		692		518

1. 2016 includes sale preparation costs of £22 million in respect of the disposal of the UK Gas Distribution business. Current year costs have been included as part of transaction costs in determining the gain on disposal.
2. 2017 includes losses in respect of remeasurements of derivative financial instruments.

9. Discontinued operations continued

Statement of comprehensive income – discontinued operations
for the years ended 31 March

	Notes	2017 £m	2016 £m	2015 £m
Profit after tax from discontinued operations		**5,984**	692	518
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	23	**(75)**	129	(13)
Tax on items that will never be reclassified to profit or loss	6	**13**	(30)	3
Total items from discontinued operations that will never be reclassified to profit or loss		**(62)**	99	(10)
Items that may be reclassified subsequently to profit or loss:				
Net losses in respect of cash flow hedges		**(106)**	(38)	(68)
Transferred to profit or loss in respect of cash flow hedges		**233**	3	2
Tax on items that may be reclassified subsequently to profit or loss	6	**(23)**	7	8
Total items from discontinued operations that may be reclassified subsequently to profit or loss		**104**	(28)	(58)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations		**42**	71	(68)
Total comprehensive income for the year from discontinued operations		**6,026**	763	450

Details of the cash flows relating to discontinued operations are set out on page 90.

Gain on disposal of UK Gas Distribution

	2017 £m
Assets	
Intangible assets	**89**
Property, plant and equipment	**8,700**
Cash and cash equivalents	**5**
Trade and other receivables	**274**
Defined benefit pension asset	**37**
Other assets[1]	**83**
Total assets	**9,188**
Liabilities	
Borrowings[1]	**(5,961)**
Trade and other payables	**(488)**
Provisions	**(94)**
Deferred tax liabilities	**(1,073)**
Defined benefit pension liability	**(3)**
Deferred income	**(915)**
Other liabilities	**(6)**
Total liabilities	**(8,540)**
Net assets on disposal	**648**
Satisfied by:	
Cash proceeds	**3,679**
Loan proceeds	**1,775**
Shareholder loan (note 14)	**429**
Associate at fair value[2]	**1,611**
Total consideration	**7,494**
Less:	
Financing costs	**(1,334)**
Transaction costs	**(305)**
Business restructuring costs	**(198)**
Pre-tax gain on disposal	**5,009**
Tax	**312**
Post-tax gain on disposal	**5,321**

1. Net debt disposal of £5,890 million principally comprises £5,961 million of borrowings net of £71 million of other financial assets.
2. Details of the basis on which the fair value of the retained interest in the business has been determined are in note 15.

9. Discontinued operations continued

Costs included in the gain on disposal total £1,837 million. These include the direct costs of selling UK Gas Distribution (‘transaction costs’), the costs for activities undertaken to prepare and structure the disposal (‘business set-up costs’) and business restructuring costs:

- £1,334 million of these costs relate to the financing exercise undertaken to ensure an appropriate amount of debt was placed in UK Gas Distribution. This includes the costs associated with buybacks of debt from the continuing Group, losses on loans novated at fair value from the continuing Group to UK Gas Distribution as well as losses from closing out derivatives previously designated as cash flow hedges.
- On 8 December 2016, we announced that a voluntary distribution of £150 million would be made for the benefit of energy consumers on the successful sale of UK Gas Distribution. This is a constructive obligation that was triggered on sale of UK Gas Distribution and is included within transaction costs.
- Transaction costs also include professional services fees for the various accounting, legal and consulting work associated with the activities to prepare and structure the disposal of UK Gas Distribution.
- Business restructuring costs principally includes severance costs and costs associated with onerous contracts as a result of the disposal of UK Gas Distribution.

The gain on sale is subject to the substantial shareholder exemption. A tax credit on the gain on disposal arises principally from costs associated with the financing exercise.

Unaudited commentary on the results of discontinued operations

Discontinued operations

Discontinued operations comprise primarily the UK Gas Distribution and Xoserve businesses. Adjusted operating profit for discontinued operations increased by £12 million to £894 million. Operating profit from Xoserve decreased by £8 million, reflecting system implementation costs. In UK Gas Distribution, adjusted operating profit was £20 million higher. Revenue was £36 million lower. This primarily reflects the non-recurrence of last year’s revenue over-recovery compared to allowance. Pass-through costs were £2 million lower and regulated controllable costs were £13 million higher including costs resulting from an increase in the number of employees. Depreciation and amortisation costs were £84 million lower reflecting the cessation of depreciation from 8 December 2016, being the point at which the business was determined to be held for sale. Other costs were £17 million higher this year.

UK Gas Distribution

Regulated financial performance for UK Gas Distribution increased to £864 million from £819 million, up 5%. This reflects an increase in achieved operational return on equity year-on-year, driven by improved totex performance.

Reconciliation of regulated financial performance to operating profit	**2017 £m**	2016 £m	% change
Reported operating profit	**898**	878	2
Movement in regulatory ‘IOUs’	**16**	(35)	
Deferred taxation adjustment	**(24)**	(34)	
RAV indexation (average 3% long-run inflation)	**260**	255	
Regulatory vs IFRS depreciation difference	**(199)**	(104)	
Fast/slow money adjustment	**(121)**	(168)	
Pensions	**(13)**	(13)	
Performance RAV created	**47**	40	
Regulated financial performance	**864**	819	5

10. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Impairment
Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairments of goodwill are calculated as the difference between the carrying value of the goodwill and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and are disclosed separately.

	Total £m
Net book value at 1 April 2015	5,145
Exchange adjustments	170
Net book value at 31 March 2016	5,315
Exchange adjustments	781
Net book value at 31 March 2017	**6,096**

The cost of goodwill at 31 March 2017 was £6,112 million (2016: £5,327 million) with an accumulated impairment charge of £16 million (2016: £12 million).

The amounts disclosed above as at 31 March 2017 include balances relating to the following cash-generating units: New York £3,512 million (2016: £3,061 million); Massachusetts £1,313 million (2016: £1,145 million); Rhode Island £488 million (2016: £426 million); and Federal £783 million (2016: £683 million).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five-year plan projections that incorporate our best estimates of future cash flows, customer rates, costs (including changes in commodity prices), future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years has been maintained at 2% (2016: 2%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 9% (2016: 8%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

11. Other intangible assets

Other intangible assets include software which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Other intangible assets are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

	Years
Software	3 to 10

	Software £m
Cost at 1 April 2015	1,504
Exchange adjustments	22
Additions	220
Disposals	(3)
Reclassifications[1]	1
Cost at 31 March 2016	1,744
Exchange adjustments	105
Additions	234
Disposals	(43)
Disposal of UK Gas Distribution	(304)
Reclassifications[1]	(4)
Cost at 31 March 2017	1,732
Accumulated amortisation at 1 April 2015	(702)
Exchange adjustments	(8)
Amortisation charge for the year	(147)
Reclassifications[1]	–
Accumulated amortisation at 31 March 2016	(857)
Exchange adjustments	(43)
Amortisation charge for the year	(164)
Reclassifications[1]	–
Accumulated amortisation of disposals	40
Disposal of UK Gas Distribution	215
Accumulated amortisation at 31 March 2017	(809)
Net book value at 31 March 2017	**923**
Net book value at 31 March 2016	887

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 12), reclasses between cost and accumulated amortisation of £nil (2016: £nil).

12. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Our strategy in action
We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 65
Plant and machinery:	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	15 to 21
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if material are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

12. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2015	2,510	50,635	4,515	984	58,644
Exchange adjustments	41	669	20	23	753
Additions	60	801	2,686	126	3,673
Disposals	(26)	(393)	(78)	(62)	(559)
Reclassifications[1]	173	3,060	(3,269)	100	64
Cost at 31 March 2016	2,758	54,772	3,874	1,171	62,575
Exchange adjustments	196	3,157	93	76	3,522
Additions	55	822	3,080	132	4,089
Disposals[2]	(22)	(572)	(70)	(204)	(868)
Disposal of UK Gas Distribution	(112)	(11,861)	(88)	(300)	(12,361)
Reclassifications[1]	104	2,913	(2,938)	(41)	38
Cost at 31 March 2017	2,979	49,231	3,951	834	56,995
Accumulated depreciation at 1 April 2015	(530)	(16,713)	–	(678)	(17,921)
Exchange adjustments	(32)	(168)	–	(10)	(210)
Depreciation charge for the year[3]	(79)	(1,273)	–	(116)	(1,468)
Disposals	6	386	–	61	453
Reclassifications[1]	(5)	(60)	–	–	(65)
Accumulated depreciation at 31 March 2016	(640)	(17,828)	–	(743)	(19,211)
Exchange adjustments	(29)	(780)	–	(44)	(853)
Depreciation charge for the year[3]	(84)	(1,338)	–	(113)	(1,535)
Disposals[2]	42	545	–	203	790
Disposal of UK Gas Distribution	29	3,425	–	207	3,661
Reclassifications[1]	(2)	(20)	–	–	(22)
Accumulated depreciation at 31 March 2017	(684)	(15,996)	–	(490)	(17,170)
Net book value at 31 March 2017	**2,295**	**33,235**	**3,951**	**344**	**39,825**
Net book value at 31 March 2016	2,118	36,944	3,874	428	43,364

1. Represents amounts transferred between categories, (to)/from other intangible assets (see note 11), reclasses from inventories and reclasses between cost and accumulated depreciation of £21 million (2016: £64 million).
2. Includes the reversal of assets with cost of £107 million and accumulated depreciation of £107 million disposed in previous years that remain in use in the Group.
3. Includes amounts in respect of capitalised depreciation of £1 million (2016: £1 million).

	2017 £m	2016 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,749**	1,622
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	**289**	226
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	**98**	87
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**89**	47
Non-current liabilities	**839**	1,649

13. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2018.

	2017 £m	2016 £m
Commodity contract assets	**52**	10
Other receivables	**45**	37
Prepayments and accrued income	**24**	35
	121	82

14. Financial and other investments

Financial and other investments include three main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category comprises long-term loans to our associates and joint ventures. The third category is other loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loans receivable and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2017 £m	2016 £m
Non-current		
Available-for-sale investments	**605**	482
Loans to associates and joint ventures[1]	**495**	–
	1,100	482
Current		
Available-for-sale investments	**7,432**	1,951
Other loans and receivables	**1,309**	1,047
	8,741	2,998
	9,841	3,480
Financial and other investments include the following:		
Investments in short-term money funds[2]	**6,899**	1,516
Managed investments in equity and bonds[3]	**939**	615
Cash surrender value of life insurance policies	**202**	160
Other loans and receivables	**495**	–
Restricted balances:		
Collateral[4]	**1,262**	999
Other	**44**	190
	9,841	3,480

1. Comprises £434 million relating to shareholder loans to Quadgas HoldCo Limited, and amounts loaned to joint ventures.
2. Includes £14 million (2016: £8 million) held by insurance captives and therefore restricted.
3. Includes restricted amounts of £434 million (2016: £434 million) held by insurance captives and £225 million (2016: £181 million) relating to US non-qualified plan investments.
4. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. The carrying value of loans and receivables is approximate to their fair value, due to short-dated maturities or transactions entered into on 31 March 2017 at market terms. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are past due or impaired.

Unaudited commentary on financial and other investments

Current available-for-sale investments at 31 March 2017 were £5,481 million higher than at 31 March 2016, primarily reflecting the proceeds received on 31 March 2017 relating to the sale of the UK Gas Distribution business.

15. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Company jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

	2017			2016		
	Associates £m	**Joint ventures £m**	**Total £m**	Associates £m	Joint ventures £m	Total £m
Share of net assets at 1 April	**84**	**313**	**397**	128	190	318
Exchange adjustments	**16**	**19**	**35**	4	17	21
Additions	**74**	**63**	**137**	9	107	116
Acquisition of stake in Quadgas HoldCo Limited	**1,611**	**–**	**1,611**	–	–	–
Disposals	**–**	**–**	**–**	(52)	–	(52)
Share of post-tax results for the year	**15**	**48**	**63**	13	46	59
Dividends received	**(24)**	**(75)**	**(99)**	(24)	(48)	(72)
Other movements	**–**	**(61)**	**(61)**	6	1	7
Share of net assets at 31 March	**1,776**	**307**	**2,083**	84	313	397

A list of joint ventures and associates including the name and proportion of ownership is provided in note 32.

Further information on the Group's acquisition of a minority stake in Quadgas HoldCo Limited is provided in note 9 and overleaf.

On 10 January 2017 the Group announced it had entered into an arrangement with San Francisco-based Sunrun Neptune Investor 2016 LLC, a leading US provider of residential solar energy systems to provide investment capital. In the period to 31 March 2017, the Group invested £41 million alongside Sunrun into a newly incorporated partnership vehicle. The investment is classified as an associate as the Group has significant influence over the activities of the partnership vehicle.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates. The Group has capital commitments of £235 million (2016: £305 million) in relation to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 29.

At 31 March 2017, the Group had one material joint venture, in respect of its 50% equity stake in BritNed Development Limited, and one material associate in respect of its 39% equity stake in Quadgas HoldCo Limited.

BritNed Development Limited (joint venture)
BritNed Development Limited is a joint venture with transmission system operator TenneT and operates the subsea electricity link between Great Britain and the Netherlands, commissioned in 2011.

BritNed Development Limited has a reporting period end of 31 December with monthly management reporting information provided to National Grid. Summarised financial information of this joint venture, as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2017 £m	2016 £m
Statement of financial position – BritNed Development Limited		
Non-current assets	**392**	376
Cash and cash equivalents	**45**	77
All other current assets	**1**	3
Non-current liabilities	**(10)**	(8)
Current liabilities	**(20)**	(30)
Equity	**408**	418
Carrying amount of the Group's investment (National Grid ownership 50%)	**204**	209

15. Investments in joint ventures and associates continued

	2017 £m	2016 £m
Income statement – BritNed Development Limited		
Revenue	**399**	198
Depreciation and amortisation	**(13)**	(11)
Other costs	**(257)**	(56)
Operating profit	**129**	131
Income tax expense	**(23)**	(32)
Profit for the year	**106**	99
Group's share in profit (National Grid ownership 50%)	**53**	50

Quadgas HoldCo Limited (associate)

As set out in note 9, on disposal of the Group's interest in the UK Gas Distribution business, the Group retains an equity interest in UK Gas Distribution through its parent, Quadgas HoldCo Limited and a shareholder loan asset of £0.4 billion (see note 14).

The Group has the power to appoint 4 of the 12 members of the board of Quadgas HoldCo Limited, which confers significant influence, but not joint control. In general, the key strategic, operational and financial decisions can be effected by a simple majority of votes. However, in certain limited circumstances, certain decisions require the consent of both parties. While these circumstances are not expected to occur regularly, given the rights conferred, and in view of the Group's equity stake, the investment has been accounted for as an equity investment in an associate.

The Group is required to recognise its 39% interest in Quadgas HoldCo Limited initially at fair value, being the market price of the investment as at 31 March 2017. As described in note 9, a Further Acquisition Agreement (FAA) was signed concerning a 14% interest in Quadgas HoldCo Limited structured as a put/call option. National Grid can deliver a sell notice to sell the shares in Quadgas HoldCo Limited with at least six months' notice, for closing between 1 March 2019 and 30 June 2019. The Consortium can deliver, a purchase notice to acquire the shares in Quadgas HoldCo Limited from 1 July 2019 to 31 October 2019. Since the FAA contains derivative features in the form of put/call options, it is required to be accounted for at fair value through profit and loss. On the basis that no premium was paid or received for entering into this arrangement, and further that, for the reasons set out in note 9, the arrangement was on market terms at 31 March 2017, the fair value of the contract is considered to be zero at year end.

Quadgas HoldCo Limited is an unlisted entity, and so no quoted price exists. The fair value has been determined with reference to the equity value of the business implicit in the sale transaction, adjusted to reflect a deduction for the estimated premium paid for control by the Consortium. In assigning value to the retained interests, the Group has valued 14% of its 39% interest based on the price implied by the FAA. The deduction for control premium has been applied to the residual 25% interest.

The Group is required to complete a purchase price allocation exercise for its interest in Quadgas HoldCo Limited. However, this is not required to be finalised until 31 March 2018. In view of the limited time elapsed since 31 March 2017, amounts disclosed below remain provisional.

Summarised financial information of this associate (reflecting provisional fair values) together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2017 £m
Statement of financial position – Quadgas HoldCo Limited	
Non-current assets	**15,559**
All other current assets	**299**
Non-current liabilities	**(10,408)**
Current liabilities	**(519)**
Equity	**4,931**
Proportion of the Group's ownership interest in associate	**1,923**
Discount for non-controlling interest	**(312)**
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	**1,611**

The sale of the previously owned subsidiary and subsequent acquisition of 39% equity interest occurred (note 9) on 31 March 2017. As such, no profit or loss impact noted for the current financial year outside of the amounts disclosed as discontinued operations.

16. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below. We also use derivatives to manage our operational market risks from commodities. The commodity derivative contracts are detailed in note 30(e).

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

For each class of derivative instrument type the total fair value amounts are as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**849**	**(657)**	**192**	1,095	(908)	187
Cross-currency interest rate swaps	**676**	**(909)**	**(233)**	690	(589)	101
Foreign exchange forward contracts	**160**	**(113)**	**47**	159	(135)	24
Inflation linked swaps	**7**	**(529)**	**(522)**	1	(420)	(419)
Equity options	**15**	**(15)**	**–**	18	(17)	1
	1,707	**(2,223)**	**(516)**	1,963	(2,069)	(106)

The maturity profile of derivative financial instruments is as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	**192**	**(1,054)**	**(862)**	278	(337)	(59)
	192	**(1,054)**	**(862)**	278	(337)	(59)
Non-current						
In 1 to 2 years	**199**	**(305)**	**(106)**	31	(213)	(182)
In 2 to 3 years	**122**	**(160)**	**(38)**	159	(221)	(62)
In 3 to 4 years	**39**	**(83)**	**(44)**	139	(159)	(20)
In 4 to 5 years	**419**	**(36)**	**383**	32	(155)	(123)
More than 5 years	**736**	**(585)**	**151**	1,324	(984)	340
	1,515	**(1,169)**	**346**	1,685	(1,732)	(47)
	1,707	**(2,223)**	**(516)**	1,963	(2,069)	(106)

For each class of derivative the notional contract[1] amounts are as follows:

	2017 £m	2016 £m
Interest rate swaps	**(9,469)**	(10,552)
Cross-currency interest rate swaps	**(8,631)**	(8,316)
Foreign exchange forward contracts	**(8,253)**	(6,903)
Inflation linked swaps	**(1,423)**	(1,394)
Equity options	**(1,490)**	(800)
	(29,266)	(27,965)

1. The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

16. Derivative financial instruments continued

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods, which are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are offset in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**548**	482

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity, and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**(180)**	(46)
Foreign exchange forward contracts	**69**	47
Inflation linked swaps	**–**	(151)
	(111)	(150)

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2017 £m	2016 £m
Cross-currency interest rate swaps	**(544)**	(199)
Foreign exchange forward contracts	**(56)**	(100)
	(600)	(299)

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

16. Derivative financial instruments continued

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**135**	51
Foreign exchange forward contracts	**34**	77
Inflation linked swaps	**(522)**	(268)
Equity options	**–**	1
	(353)	(139)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss, unless the hedged item is no longer expected to occur and then the amounts would be recognised immediately. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

17. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short term, either by selling the asset itself (for example fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2017 £m	2016 £m
Fuel stocks	**101**	120
Raw materials and consumables	**191**	203
Work in progress	**8**	13
Current intangible assets – emission allowances	**103**	101
	403	437

There is a provision for obsolescence of £26 million against inventories as at 31 March 2017 (2016: £28 million).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

18. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services (and commodities in the US) we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade and other receivables are initially recognised at fair value and other than in respect of commodity contract assets, subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. Commodity contract assets are recorded at fair value. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

	2017 £m	2016 £m
Trade receivables	**1,591**	1,276
Accrued income	**811**	796
Prepayments	**228**	212
Commodity contract assets	**54**	22
Other receivables	**98**	89
	2,782	2,395

Trade receivables are non interest-bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value.

Provision for impairment of receivables

	2016 £m	2015 £m
At 1 April	**349**	294
Exchange adjustments	**51**	11
Charge for the year, net of recoveries	**147**	158
Uncollectible amounts written off against receivables	**(121)**	(114)
Disposal of UK Gas Distribution	**(2)**	–
At 31 March	**424**	349

Trade receivables past due but not impaired

	2017 £m	2016 £m
Up to 3 months past due	**238**	214
3 to 6 months past due	**67**	48
Over 6 months past due	**143**	142
	448	404

For further information on our wholesale and retail credit risk, refer to note 30(a). For further information on our commodity risk, refer to note 30(e).

19. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2017 £m	2016 £m
Cash at bank	**199**	126
Short-term deposits	**940**	1
Cash and cash equivalents excluding bank overdrafts	**1,139**	127
Bank overdrafts	**–**	(3)
Net cash and cash equivalents	**1,139**	124

At 31 March 2017, £2 million (2016: £2 million) of cash and cash equivalents were restricted. This primarily relates to cash held in captive insurance companies. £940 million (2016: £1 million) comprises short-term money fund deposits.

20. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 16, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action
Our price controls and rate plans require us to fund our networks within a certain ratio of debt to equity and, as a result, we have issued a significant amount of debt. As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit rating agencies.

Borrowings, which include interest-bearing and inflation linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

	2017 £m	2016 £m
Current		
Bank loans	**1,339**	1,179
Bonds	**2,209**	1,282
Commercial paper	**1,881**	1,092
Finance leases	**66**	53
Other loans	**1**	2
Bank overdrafts	**–**	3
	5,496	3,611
Non-current		
Bank loans	**2,343**	1,816
Bonds	**20,368**	22,556
Finance leases	**242**	190
Other loans	**189**	171
	23,142	24,733
Total borrowings	**28,638**	28,344

20. Borrowings continued

Total borrowings are repayable as follows:

	2017 £m	2016 £m
Less than 1 year	**5,496**	3,611
In 1 to 2 years	**1,941**	1,835
In 2 to 3 years	**1,821**	1,816
In 3 to 4 years	**2,453**	1,775
In 4 to 5 years	**1,921**	2,276
More than 5 years:		
by instalments	**1,043**	742
other than by instalments	**13,963**	16,289
	28,638	28,344

The fair value of borrowings at 31 March 2017 was £32,239 million (2016: £31,463 million). Where market values were available, fair value of borrowings (Level 1) was £12,547 million (2016: £13,283 million). Where market values were not available, fair value of borrowings (Level 2) was £19,692 million (2016: £18,180 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2017 was £28,310 million (2016: £27,836 million).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £440 million at 31 March 2017 (2016: £385 million).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £709 million (2016: £610 million) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

	2017 £m	2016 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**66**	53
1 to 5 years	**213**	156
More than 5 years	**89**	75
	368	284
Less: finance charges allocated to future periods	**(60)**	(41)
	308	243
The present value of finance lease liabilities is as follows:		
Less than 1 year	**66**	53
1 to 5 years	**174**	137
More than 5 years	**68**	53
	308	243

Unaudited commentary on borrowings

As at 31 March 2017, total borrowings of £28,638 million (2016: £28,344 million) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had increased by £294 million. We expect to repay £5,496 million of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets and surplus cash. The average long-term debt maturity of the portfolio is 11 years (2016: 12 years). Further information on our bonds can be found in the debt investor section of our website.

21. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2017 £m	2016 £m
Trade payables	**2,135**	2,038
Deferred income	**298**	275
Commodity contract liabilities	**93**	96
Social security and other taxes	**136**	159
Other payables	**776**	717
	3,438	3,285

Due to their short maturities, the fair value of trade payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

22. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2018. It also includes payables that are not due until after that date.

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost.

	2017 £m	2016 £m
Deferred income	**1,032**	1,802
Commodity contract liabilities	**77**	39
Other payables	**338**	230
	1,447	2,071

There is no material difference between the fair value and the carrying value of other non-current liabilities.

23. Pensions and other post-retirement benefits

Substantially all our employees are members of either DB (defined benefit) or DC (defined contribution) pension plans. The principal UK plans are the National Grid UK Pension Scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme and the National Grid YouPlan. In the US, we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised).

We separately present our UK and US pension plans to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the obligations.

When deciding on these assumptions we take independent actuarial advice. Comparatively small changes in the assumptions applied may have a significant effect on the overall deficit or surplus of a DB pension plan.

For DC pension plans, National Grid pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB pension plans, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. National Grid underwrites both financial and demographic risks associated with this type of plan.

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

23. Pensions and other post-retirement benefits continued

National Grid's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

National Grid 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. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Risks
The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

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

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

UK pension plans
National Grid's DB pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by trustee companies with boards 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 their beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below:

	NG UKPS[1]	NGEG of ESPS[2]
Latest full actuarial valuation	30 September 2015[3]	31 March 2016
Actuary	Willis Towers Watson	Aon Hewitt
Market value of plan assets at latest valuation	£16,551m	£2,553m
Actuarial value of benefits due to members	£18,176m	£3,053m
Market value as percentage of benefits	91%	84%
Funding deficit	£1,625m	£500m
Funding deficit (net of tax)	£1,349m	£415m

1. National Grid UK Pension Scheme.
2. National Grid Electricity Group of the Electricity Supply Pension Scheme.
3. NG UKPS valuation at 30 September 2015 occurred prior to sectionalisation and so the figures above represent the entire scheme (including what is now Section C).

23. Pensions and other post-retirement benefits continued

National Grid UK Pension Scheme
Following the actuarial valuation at 31 March 2013, deficit contributions were paid to the National Grid UK Pension Scheme of £99 million in 2014/15, £100 million in 2015/16 and £101 million in 2016/17.

The last full actuarial valuation for the National Grid UK Pension Scheme was carried out at 30 September 2015. 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.

With effect from 1 January 2017, sectionalisation of the National Grid UK Pension Scheme was carried out in anticipation of the disposal of UK Gas Distribution. The National Grid UK Pension Scheme was split into three sections, each of which are legally and actuarially separate. Section A and Section B are supported by companies within the National Grid Group and Section C is supported by Cadent Gas Limited (previously National Grid Gas Distribution Limited). The disposal of UK Gas Distribution completed on 31 March 2017 and the figures shown in these financial statements cover all three sections for amounts recognised in the income statement and the statement of other comprehensive income. At the reporting date the fair value of plan assets of £6,993 million and fair value of plan obligations of £6,957 million, as calculated on an IAS 19 basis, had been transferred as they form part of the net assets of UK Gas Distribution sold in the gain on sale calculation in note 9. The first actuarial valuation for Section A and Section B will be carried out at 31 March 2017 and these valuation processes have commenced.

Section A
National Grid and the Trustees have agreed on a schedule of contributions, under which payments of £212 million were made in 2016/17 after sectionalisation with effect from 1 January 2017. 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'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.

Section B
National Grid and the Trustees have agreed on a schedule of contributions, under which payments of £30 million plus an adjustment for RPI will be made in 2017/18 and will thereafter rise in line with RPI. 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 Gas plc's credit rating. At 31 March 2017 the value of this was required to be £192 million. This was provided via £200 million in letters of credit. The assets held as security will be paid to Section B in the event that National Grid Gas plc (NGG) is subject to an insolvency event, if NGG is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if National Grid fails to make the required contributions in relation to Section B, if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if NGG grants any charges over its assets other than where agreed with the Trustees. 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 £65 million (increased in line with RPI) into Section B if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The 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 (YouPlan) (see below).

National Grid Electricity Group of the Electricity Supply Pension Scheme
The last full actuarial valuation for the NGEG was carried out at 31 March 2016. This showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 40.7% of pensionable earnings (currently an average of 33.7% by employers and an average of 7% by employees). The next actuarial valuation is required with an effective date no later than 31 March 2019.

Following the 2016 valuation, National Grid and the Trustees agreed on a recovery plan that would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £48 million were made in 2016/17, and will rise in line with RPI until 2026/27. As part of the agreement, National Grid has established security arrangements with a charge in favour of the Trustees. At 31 March 2017 the value of this was required to be £212 million. This was provided via £212 million in letters of credit. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, if NGET fails to make the required contributions in relation to the scheme, or if NGET ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme moves into surplus. National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500 million should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

The National Grid YouPlan
The YouPlan is a DC scheme that was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

23. Pensions and other post-retirement benefits continued

US pension plans
National Grid sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the DB plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions determined under these regulations can vary significantly depending upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

National Grid also has multiple DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011, as well as new hires in the majority of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

US retiree healthcare and life insurance plans
National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement healthcare and life insurance plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

Amounts recognised in the statement of financial position

	2017 £m	2016 £m	2015 £m
Present value of funded obligations[1]	**(25,890)**	(28,648)	(29,292)
Fair value of plan assets	**24,375**	26,434	26,408
	(1,515)	(2,214)	(2,884)
Present value of unfunded obligations	**(340)**	(304)	(300)
Other post-employment liabilities	**(78)**	(67)	(74)
Net defined benefit liability	**(1,933)**	(2,585)	(3,258)
Represented by:			
Liabilities	**(2,536)**	(2,995)	(3,379)
Assets	**603**	410	121
	(1,933)	(2,585)	(3,258)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Present value of funded obligations[1]	**(15,565)**	(19,341)	(20,053)	**(6,790)**	(5,916)	(5,827)	**(3,535)**	(3,391)	(3,412)
Fair value of plan assets	**15,489**	19,401	19,453	**6,322**	5,136	5,052	**2,564**	1,897	1,903
	(76)	60	(600)	**(468)**	(780)	(775)	**(971)**	(1,494)	(1,509)
Present value of unfunded obligations	**(80)**	(75)	(72)	**(260)**	(229)	(228)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**–**	–	–	**(78)**	(67)	(74)
Net defined benefit liability	**(156)**	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)
Represented by:									
Liabilities	**(536)**	(300)	(672)	**(951)**	(1,134)	(1,124)	**(1,049)**	(1,561)	(1,583)
Assets	**380**	285	–	**223**	125	121	**–**	–	–
	(156)	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)

1. Present value of funded obligations split approximately as follows:
- UK pensions at 31 March 2017: 12% active members (2016: 12%; 2015: 12%); 19% deferred members (2016: 18%; 2015: 18%); 69% pensioner members (2016: 70%; 2015: 70%)
- US pensions at 31 March 2017: 38% active members (2016: 39%; 2015: 38%); 9% deferred members (2016: 9%; 2015: 9%); 53% pensioner members (2016: 52%; 2015: 53%)
- US other post-retirement benefits at 31 March 2017: 39% active members (2016: 41%; 2015: 38%); 0% deferred members (2016: 0%; 2015: 0%); 61% pensioner members (2016: 59%; 2015: 62%)

These figures reflect legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14 in both the UK and US.

23. Pensions and other post-retirement benefits continued

Amounts recognised in the income statement and statement of other comprehensive income

	2017 £m	2016 £m	2015 £m
Included within operating costs			
Administration costs	**16**	16	14
Included within payroll costs			
Defined contribution scheme costs	**69**	56	48
Defined benefit scheme costs:			
Current service cost	**232**	221	186
Past service cost – augmentations	**1**	3	7
Past service (credit)/cost – redundancies	**(1)**	(1)	1
Past service cost – plan amendments	**–**	–	1
Special termination benefit cost – redundancies	**7**	11	20
	308	290	263
Included within finance income and costs			
Net interest cost	**105**	112	101
Included within gain on disposal of discontinued operations			
Administration costs	**5**	2	–
Disposal of UK Gas Distribution	**34**	–	–
	39	2	–
Total included in income statement[1]	**468**	420	378
Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations	**348**	539	(771)
Exchange adjustments	**(345)**	(81)	(236)
Total included in the statement of other comprehensive income[2]	**3**	458	(1,007)

1. Amounts recognised in the income statement include operating costs of £1 million (2016: £1 million; 2015: £1 million); payroll costs of £46 million (2016: £37 million; 2015: £34 million); and net interest income of £2 million (2016: £1 million cost; 2015: £3 million cost) presented within profit from discontinued operations. These amounts all relate to UK pensions.
2. Amounts recognised in the statement of other comprehensive income include remeasurements of pension assets and post-retirement benefit obligations of £75 million loss (2016: £129 million gain; 2015: £13 million loss) presented within discontinued operations. These amounts all relate to UK pensions.

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Included within operating costs									
Administration costs	**6**	9	6	**9**	6	7	**1**	1	1
Included within payroll costs									
Defined contribution scheme costs	**37**	31	26	**32**	25	22	**–**	–	–
Defined benefit scheme costs:									
Current service cost	**76**	74	70	**103**	95	77	**53**	52	39
Past service cost – augmentations	**1**	3	7	**–**	–	–	**–**	–	–
Past service (credit)/cost – redundancies	**(1)**	(1)	1	**–**	–	–	**–**	–	–
Past service cost – plan amendments	**–**	–	–	**–**	–	1	**–**	–	–
Special termination benefit cost – redundancies	**7**	11	20	**–**	–	–	**–**	–	–
	120	118	124	**135**	120	100	**53**	52	39
Included within finance income and costs									
Net interest cost	**–**	18	27	**43**	36	25	**62**	58	49
Included within gain on disposal of discontinued operations									
Administration costs	**5**	2	–	**–**	–	–	**–**	–	–
Disposal of UK Gas Distribution	**34**	–	–	**–**	–	–	**–**	–	–
	39	2	–	**–**	–	–	**–**	–	–
Total included in income statement	**165**	147	157	**187**	162	132	**116**	111	89
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	**(541)**	534	(46)	**319**	(67)	(408)	**570**	72	(317)
Exchange adjustments	**–**	–	–	**(140)**	(33)	(88)	**(205)**	(48)	(148)
Total included in the statement of other comprehensive income	**(541)**	534	(46)	**179**	(100)	(496)	**365**	24	(465)

23. Pensions and other post-retirement benefits continued

Reconciliation of the net defined benefit liability

	2017 £m	2016 £m	2015 £m
Opening net defined benefit liability	**(2,585)**	(3,258)	(2,411)
Cost recognised in the income statement	**(399)**	(364)	(330)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	**3**	458	(1,007)
Employer contributions	**1,073**	587	508
Other movements	**(25)**	(8)	(18)
Closing net defined benefit liability	**(1,933)**	(2,585)	(3,258)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Opening net defined benefit liability	**(15)**	(672)	(753)	**(1,009)**	(1,003)	(523)	**(1,561)**	(1,583)	(1,135)
Cost recognised in the income statement	**(128)**	(116)	(131)	**(155)**	(137)	(110)	**(116)**	(111)	(89)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	**(541)**	534	(46)	**179**	(100)	(496)	**365**	24	(465)
Employer contributions	**528**	239	258	**257**	231	126	**288**	117	124
Other movements	**–**	–	–	**–**	–	–	**(25)**	(8)	(18)
Closing net defined benefit liability	**(156)**	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)

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

	2017 £m	2016 £m	2015 £m
Opening defined benefit obligations	**(28,952)**	(29,592)	(25,594)
Current service cost	**(232)**	(221)	(186)
Interest cost	**(1,057)**	(1,026)	(1,127)
Actuarial gains – experience	**166**	659	163
Actuarial gains/(losses) – demographic assumptions	**225**	–	(342)
Actuarial (losses)/gains – financial assumptions	**(3,377)**	218	(2,746)
Past service credit/(cost) – redundancies	**1**	1	(1)
Special termination benefit cost – redundancies	**(7)**	(11)	(20)
Past service cost – augmentations	**(1)**	(3)	(7)
Past service cost – plan amendments	**–**	–	(1)
Medicare subsidy received	**(14)**	(15)	(19)
Obligations transferred on disposal of UK Gas Distribution	**6,970**	–	–
Employee contributions	**(1)**	(2)	(2)
Benefits paid	**1,443**	1,348	1,268
Exchange adjustments	**(1,394)**	(308)	(978)
Closing defined benefit obligations	**(26,230)**	(28,952)	(29,592)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Opening defined benefit obligations	**(19,416)**	(20,125)	(18,162)	**(6,145)**	(6,055)	(4,752)	**(3,391)**	(3,412)	(2,680)
Current service cost	**(76)**	(74)	(70)	**(103)**	(95)	(77)	**(53)**	(52)	(39)
Interest cost	**(615)**	(649)	(762)	**(285)**	(242)	(235)	**(157)**	(135)	(130)
Actuarial gains/(losses) – experience	**106**	552	100	**(2)**	15	(22)	**62**	92	85
Actuarial gains/(losses) – demographic assumptions	**214**	–	(95)	**2**	–	(125)	**9**	–	(122)
Actuarial (losses)/gains – financial assumptions	**(3,751)**	–	(1,980)	**37**	120	(486)	**337**	98	(280)
Past service credit/(cost) – redundancies	**1**	1	(1)	**–**	–	–	**–**	–	–
Special termination benefit cost – redundancies	**(7)**	(11)	(20)	**–**	–	–	**–**	–	–
Past service cost – augmentations	**(1)**	(3)	(7)	**–**	–	–	**–**	–	–
Past service cost – plan amendments	**–**	–	–	**–**	–	(1)	**–**	–	–
Medicare subsidy received	**–**	–	–	**–**	–	–	**(14)**	(15)	(19)
Obligations transferred on disposal of UK Gas Distribution	**6,970**	–	–	**–**	–	–	**–**	–	–
Employee contributions	**(1)**	(2)	(2)	**–**	–	–	**–**	–	–
Benefits paid	**931**	895	874	**349**	310	269	**163**	143	125
Exchange adjustments	**–**	–	–	**(903)**	(198)	(626)	**(491)**	(110)	(352)
Closing defined benefit obligations	**(15,645)**	(19,416)	(20,125)	**(7,050)**	(6,145)	(6,055)	**(3,535)**	(3,391)	(3,412)

23. Pensions and other post-retirement benefits continued

Changes in the fair value of plan assets

	2017 £m	2016 £m	2015 £m
Opening fair value of plan assets	**26,434**	26,408	23,258
Interest income	**952**	914	1,026
Return on assets greater/(less) than assumed	**3,334**	(338)	2,154
Administration costs	**(21)**	(18)	(14)
Employer contributions	**1,073**	587	508
Employee contributions	**1**	2	2
Benefits paid	**(1,443)**	(1,348)	(1,268)
Exchange adjustments	**1,049**	227	742
Assets transferred on disposal of UK Gas Distribution	**(7,004)**	–	–
Closing fair value of plan assets	**24,375**	26,434	26,408
Actual return on plan assets	**4,286**	576	3,180
Expected contributions to plans in the following year	**491**	686	533

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Opening fair value of plan assets	**19,401**	19,453	17,409	**5,136**	5,052	4,229	**1,897**	1,903	1,620
Interest income	**615**	631	735	**242**	206	210	**95**	77	81
Return on assets greater/(less) than assumed	**2,890**	(18)	1,929	**282**	(202)	225	**162**	(118)	–
Administration costs	**(11)**	(11)	(6)	**(9)**	(6)	(7)	**(1)**	(1)	(1)
Employer contributions	**528**	239	258	**257**	231	126	**288**	117	124
Employee contributions	**1**	2	2	**–**	–	–	**–**	–	–
Benefits paid	**(931)**	(895)	(874)	**(349)**	(310)	(269)	**(163)**	(143)	(125)
Exchange adjustments	**–**	–	–	**763**	165	538	**286**	62	204
Assets transferred on disposal of UK Gas Distribution	**(7,004)**	–	–	**–**	–	–	**–**	–	–
Closing fair value of plan assets	**15,489**	19,401	19,453	**6,322**	5,136	5,052	**2,564**	1,897	1,903
Actual return on plan assets	**3,505**	613	2,664	**524**	4	435	**257**	(41)	81
Expected contributions to plans in the following year	**128**	228	225	**229**	220	204	**134**	238	104

23. Pensions and other post-retirement benefits continued

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

UK pensions

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	**2,624**	**596**	**3,220**	3,272	962	4,234	3,848	761	4,609
Corporate bonds[2]	**3,526**	**–**	**3,526**	5,601	–	5,601	6,494	–	6,494
Government securities	**5,406**	**–**	**5,406**	6,059	–	6,059	4,637	–	4,637
Property	**90**	**708**	**798**	90	1,081	1,171	86	1,082	1,168
Diversified alternatives[3]	**250**	**628**	**878**	159	505	664	–	716	716
Liability matching assets[4]	**1,162**	**–**	**1,162**	1,020	–	1,020	878	–	878
Other[5]	**63**	**436**	**499**	649	3	652	936	15	951
	13,121	**2,368**	**15,489**	16,850	2,551	19,401	16,879	2,574	19,453

1. Included within equities at 31 March 2017 were ordinary shares of National Grid plc with a value of £2 million (2016: £7 million; 2015: £14 million).
2. 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; 2015: £80 million).
3. Includes return seeking non-conventional asset classes.
4. Includes liability-driven investment vehicles.
5. Includes cash and cash type instruments.

US pensions

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**698**	**1,915**	**2,613**	625	1,508	2,133	617	1,455	2,072
Corporate bonds	**1,130**	**537**	**1,667**	954	483	1,437	969	473	1,442
Government securities	**872**	**71**	**943**	711	–	711	727	–	727
Property	**–**	**335**	**335**	–	276	276	–	249	249
Diversified alternatives[1]	**209**	**433**	**642**	163	334	497	164	334	498
Other	**31**	**91**	**122**	–	82	82	–	64	64
	2,940	**3,382**	**6,322**	2,453	2,683	5,136	2,477	2,575	5,052

1. Includes return seeking non-conventional asset classes.

US other post-retirement benefits

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**405**	**1,162**	**1,567**	281	853	1,134	289	872	1,161
Corporate bonds	**19**	**–**	**19**	37	1	38	34	–	34
Government securities	**520**	**1**	**521**	390	–	390	382	–	382
Diversified alternatives[1]	**166**	**149**	**315**	122	104	226	114	100	214
Other	**–**	**142**	**142**	–	109	109	–	112	112
	1,110	**1,454**	**2,564**	830	1,067	1,897	819	1,084	1,903

1. Includes return seeking non-conventional asset classes.

23. Pensions and other post-retirement benefits continued

Target asset allocations

Each plan's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2017 is as follows:

	UK pensions %	US pensions %	US other post-retirement benefits %
Equities	22	40	65
Other	78	60	35
	100	100	100

Actuarial assumptions

The Company has applied the following financial assumptions in assessing DB liabilities.

	UK pensions			US pensions			US other post-retirement benefits		
	2017 %	2016 %	2015 %	**2017 %**	2016 %	2015 %	**2017 %**	2016 %	2015 %
Discount rate[1]	**2.4**	3.3	3.3	**4.3**	4.3	4.1	**4.3**	4.3	4.1
Rate of increase in salaries[2]	**3.5**	3.2	3.2	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in RPI[3]	**3.2**	2.9	2.9	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**7.0**	7.5	8.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**4.5**	4.5	5.0

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK and US debt markets at the reporting date.
2. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2014. The UK assumption for the rate of increase in salaries for service after this date is 2.2% (2016: 2.1%).
3. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. The assumptions for the UK were 3.2% (2016: 2.9%; 2015: 2.9%) for increases in pensions in payment and 3.2% (2016: 2.9%; 2015: 2.9%) for increases in pensions in deferment.

For sensitivity analysis see note 33.

	2017		2016		2015	
	UK years	**US years**	UK years	US years	UK years	US years
Assumed life expectations for a retiree age 65						
Today:						
Males	**22.9**	**21.9**	22.8	21.8	22.7	21.7
Females	**24.7**	**24.1**	25.2	24.0	25.1	23.9
In 20 years:						
Males	**25.1**	**23.6**	25.1	23.5	24.9	23.4
Females	**27.1**	**25.7**	27.6	25.6	27.4	25.6

Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 13 years for US pension schemes and 15 years for US other post-retirement benefits.

24. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

Our strategy in action
We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2015	1,164	137	39	23	372	1,735
Exchange adjustments	29	3	–	1	9	42
Additions	30	22	10	1	33	96
Unused amounts reversed	(15)	(8)	(1)	–	(3)	(27)
Unwinding of discount	58	4	1	–	10	73
Utilised	(97)	(17)	(19)	(7)	(60)	(200)
At 31 March 2016	1,169	141	30	18	361	1,719
Exchange adjustments	137	13	–	2	36	188
Additions	572	107	16	12	308	1,015
Unused amounts reversed	(75)	–	(5)	–	(6)	(86)
Unwinding of discount	60	–	1	–	12	73
Utilised	(110)	(19)	(25)	–	(73)	(227)
Disposal of UK Gas Distribution	(32)	(21)	–	–	(41)	(94)
At 31 March 2017	**1,721**	**221**	**17**	**32**	**597**	**2,588**

	2017 £m	2016 £m
Current	**416**	236
Non-current	**2,172**	1,483
	2,588	1,719

24. Provisions continued

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2017			2016		
	Discounted £m	**Undiscounted £m**	**Real discount rate**	Discounted £m	Undiscounted £m	Real discount rate
UK sites	**242**	**270**	**1%**	280	348	2%
US sites	**1,479**	**1,619**	**1%**	889	1,031	2%
	1,721	**1,889**		1,169	1,379	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2017 and 2077. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred between 2017 and 2071. The increase in the US provision principally relates to the reduction in real discount rate and expected expenditure in relation to three industrial sites located on or near waterways in New York that are subject to both state and federal law in the US. Refer to note 4 for further details. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision represents £78 million (2016: £66 million) of expenditure relating to asset retirement obligations estimated to be incurred until 2095, and £107 million (2016: £nil) of expenditure relating to the demolition of gas holders estimated to be incurred until 2026. It also includes the net present value of the estimated expenditure (discounted at a real rate of 1%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns. A pre-existing decommissioning provision formed part of the net assets sold as part of the UK Gas Distribution transaction.

Restructuring provision

The restructuring provision principally relates to business reorganisation costs in the UK and is expected to be incurred until 2023.

Other provisions

Included within other provisions at 31 March 2017 are the following amounts in respect of the disposal of UK Gas Distribution:

- £150 million voluntary distribution to be made for the benefit of energy customers on the successful sale of UK Gas Distribution. We anticipate this expenditure being incurred over three years; and
- £143 million in respect of business set up costs and business restructuring costs (as disclosed in note 9). We expect the majority of this provision to be utilised within one year.

Other provisions also include:

- Amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £84 million (2016: £100 million) with expenditure expected to be incurred until 2039;
- £166 million (2016: £190 million) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date; and
- £13 million (2016: £13 million) in respect of obligations associated with investments in joint ventures and associates.

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominantly to actively manage share issuances under the scrip dividend scheme and to satisfy employee share option plan liabilities.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Allotted, called up and fully paid	
	million	£m
At 1 April 2015	3,892	443
Issued during the year in lieu of dividends[1]	32	4
At 31 March 2016	3,924	447
Issued during the year in lieu of dividends[1]	19	2
At 31 March 2017	**3,943**	**449**

1. The issue of shares under the scrip dividend scheme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of 11 $^{17}/_{43}$ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

On 19 April 2017, the Company announced that its Board had approved a special interim dividend of 84.375 pence per existing ordinary share ($5.4224 per existing ADS) following completion of the sale of the majority interest in UK Gas Distribution. In order to maintain the comparability of the Company's share price before and after the special dividend, the Company plans to undertake a share consolidation. The share consolidation will replace every 12 existing ordinary shares with 11 new ordinary shares. The Company has published a notice of general meeting and explanatory circular to shareholders regarding the share consolidation and related resolutions which will be subject to shareholder approval at the General Meeting of the Company being held on 19 May 2017.

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

Treasury shares
At 31 March 2017, the Company held 193 million (2016: 179 million) of its own shares. The market value of these shares as at 31 March 2017 was £1,958 million (2016: £1,767 million).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2017:

1. During the year, the Company, as part of management of the dilutive effect of share issuances under the scrip dividend scheme, repurchased 20 million (2016: 31 million) ordinary shares for aggregate consideration of £189 million (2016: £267 million), including transaction costs. The shares repurchased have a nominal value of £2 million (2016: £4 million) and represented approximately 1% (2016: 1%) of the ordinary shares in issue as at 31 March 2017.

2. During the year, 3 million (2016: 2 million) treasury shares were gifted to National Grid Employee Share Trusts and 3 million (2016: 3 million) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2016: 0.1%) of the ordinary shares in issue as at 31 March 2017. The nominal value of these shares was £1 million (2016: £1 million) and the total proceeds received were £18 million (2016: £16 million).

3. During the year the Company made payments totalling £6 million (2016: £6 million) to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 194 million ordinary shares (2016: 179 million) representing approximately 4.9% (2016: 4.6%) of the ordinary shares in issue as at 31 March 2017 and having a nominal value of £22 million (2016: £20 million).

26. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy D in note 1), cash flow hedge reserve (see note 16), available-for-sale reserve (see note 14), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2014	305	14	68	19	(5,165)	(4,759)
Exchange adjustments	174	–	–	–	–	174
Net (losses)/gains taken to equity	–	(154)	41	–	–	(113)
Transferred to/(from) profit or loss	–	13	(8)	–	–	5
Tax	–	18	(7)	–	–	11
At 31 March 2015	479	(109)	94	19	(5,165)	(4,682)
Exchange adjustments	69	–	–	–	–	69
Net gains taken to equity	–	50	43	–	–	93
Transferred to profit or loss	–	29	–	–	–	29
Tax	–	(15)	(17)	–	–	(32)
At 31 March 2016	548	(45)	120	19	(5,165)	(4,523)
Exchange adjustments	346	–	–	–	–	346
Net (losses)/gains taken to equity	–	(36)	81	–	–	45
Transferred to/(from) profit or loss	–	227	(25)	–	–	202
Tax	–	(43)	(14)	–	–	(57)
At 31 March 2017	**894**	**103**	**162**	**19**	**(5,165)**	**(3,987)**

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve will be transferred to the income statement until the committed future cash flows from borrowings and capital projects (as described in note 16) are paid. The amount due to be released from reserves to the income statement next year is a gain of £22 million (pre-tax). The remainder will be released based on the maturity profile of borrowings due after more than one year and on the stage of completion of existing capital projects.

27. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, financial investments and related derivatives.

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 180 and in note 30 to the consolidated financial statements on pages 145 to 152.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

The movement in cash and cash equivalents is reconciled to movements in net debt.

(a) Reconciliation of net cash flow to movement in net debt

	2017 £m	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	**984**	4	(247)
Increase/(decrease) in financial investments	**5,675**	391	(1,157)
(Increase)/decrease in borrowings and related derivatives	**(3,715)**	(1,100)	682
Net interest paid on the components of net debt[1]	**1,955**	810	925
Change in debt resulting from cash flows	**4,899**	105	203
Changes in fair value of financial assets and liabilities and exchange movements	**(2,273)**	(515)	(1,777)
Net interest charge on the components of net debt[1]	**(2,401)**	(913)	(1,068)
Disposal of UK Gas Distribution	**5,890**	–	–
Other non-cash movements	**(64)**	(87)	(83)
Movement in net debt (net of related derivative financial instruments) in the year	**6,051**	(1,410)	(2,725)
Net debt (net of related derivative financial instruments) at start of year	**(25,325)**	(23,915)	(21,190)
Net debt (net of related derivative financial instruments) at end of year	**(19,274)**	(25,325)	(23,915)

Composition of net debt

Net debt is made up as follows:

	2017 £m	2016 £m	2015 £m
Cash, cash equivalents and financial investments	**9,880**	3,125	2,678
Borrowings and bank overdrafts	**(28,638)**	(28,344)	(25,910)
Derivatives	**(516)**	(106)	(683)
	(19,274)	(25,325)	(23,915)

1. An exceptional charge of £1,313 million (2016: £nil; 2015: £131 million) is included in net interest charge on the components of net debt and an exceptional cash outflow of £1,052 million (2016: £nil; 2015: £152 million) is included in net interest paid on the components of net debt.

27. Net debt continued

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[1] £m
At 1 April 2014	354	(15)	339	3,599	(25,935)	807	(21,190)
Cash flow	(259)	12	(247)	(1,194)	1,721	(77)	203
Fair value gains and losses and exchange movements	24	–	24	118	(451)	(1,468)	(1,777)
Interest income/(charges)	–	–	–	36	(1,160)	56	(1,068)
Other non-cash movements	–	–	–	–	(82)	(1)	(83)
At 31 March 2015	119	(3)	116	2,559	(25,907)	(683)	(23,915)
Cash flow	4	–	4	368	(631)	364	105
Fair value gains and losses and exchange movements	4	–	4	49	(739)	171	(515)
Interest income/(charges)[2]	–	–	–	22	(978)	43	(913)
Other non-cash movements	–	–	–	–	(86)	(1)	(87)
At 31 March 2016	127	(3)	124	2,998	(28,341)	(106)	(25,325)
Cash flow	1,001	(17)	984	5,624	(2,196)	487	4,899
Fair value gains and losses and exchange movements	16	–	16	141	(1,527)	(903)	(2,273)
Interest income/(charges)[2]	–	–	–	53	(2,221)	(233)	(2,401)
Other non-cash movements	–	–	–	–	(294)	230	(64)
Disposal	(5)	20	15	(75)	5,941	9	5,890
At 31 March 2017	**1,139**	**–**	**1,139**	**8,741**	**(28,638)**	**(516)**	**(19,274)**
Balances at 31 March 2017 comprise:							
Non-current assets	–	–	–	–	–	1,515	1,515
Current assets	1,139	–	1,139	8,741	–	192	10,072
Current liabilities	–	–	–	–	(5,496)	(1,054)	(6,550)
Non-current liabilities	–	–	–	–	(23,142)	(1,169)	(24,311)
	1,139	**–**	**1,139**	**8,741**	**(28,638)**	**(516)**	**(19,274)**

1. Includes accrued interest at 31 March 2017 of £210 million (2016: £243 million; 2015: £230 million).
2. An exceptional expense of £1,313 million (2016: £nil; 2015: £131 million) is included in net interest charge on the components of net debt and an exceptional cash outflow of £1,052 million (2016: £nil; 2015: £152 million) is included in net interest paid on the components of net debt.

This section includes information that is important to enable a full understanding of our financial position, particularly areas of potential uncertainty that could affect us in the future.

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

28. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the repurchase of network assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2017 £m	2016 £m
Future capital expenditure		
Contracted for but not provided	**2,571**	2,616
Operating lease commitments		
Less than 1 year	**95**	92
In 1 to 2 years	**82**	86
In 2 to 3 years	**58**	72
In 3 to 4 years	**56**	54
In 4 to 5 years	**54**	52
More than 5 years	**274**	286
	619	642
Energy purchase commitments[1]		
Less than 1 year	**1,325**	1,096
In 1 to 2 years	**744**	598
In 2 to 3 years	**587**	454
In 3 to 4 years	**507**	362
In 4 to 5 years	**436**	315
More than 5 years	**2,100**	1,477
	5,699	4,302
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	**225**	219
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	**100**	113
Guarantees of certain obligations for construction of HVDC West Coast Link (expected expiry 2017)	**281**	415
Guarantees of certain obligations of Nemo Link Limited (various expiry dates)	**140**	166
Guarantees of certain obligations of National Grid North Sea Link Limited (various expiry dates)	**1,059**	1,038
Guarantees of certain obligations of St William Homes LLP (various expiry dates)	**147**	96
Guarantees of certain obligations for construction of IFA 2 SAS (expected expiry 2021)	**354**	–
Other guarantees and letters of credit (various expiry dates)	**474**	344
	2,780	2,391

1. Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 30(e).

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £15 million (2016: £21 million).

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

29. Related party transactions

Related parties include joint ventures, associates, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2017 £m	2016 £m	2015 £m
Sales: Goods and services supplied to a pension plan	**3**	3	3
Sales: Goods and services supplied to joint ventures[1]	**78**	9	9
Sales: Goods and services supplied to associates	**–**	4	40
Purchases: Goods and services received from joint ventures[2]	**168**	183	68
Purchases: Goods and services received from associates[2]	**169**	83	52
Receivable from joint ventures[3]	**64**	7	4
Receivable from associates[3]	**457**	–	–
Payable to joint ventures[4]	**84**	96	2
Payable to associates	**27**	7	4
Dividends received from joint ventures[5]	**75**	48	49
Dividends received from associates	**24**	24	30

1. During the year the Company sold property sites to joint venture St William Homes LLP.
2. During the year the Company received goods and services from a number of US associates, both for the transportation of gas and for pipeline services in the US. Additionally, goods and services were received from UK joint ventures for the construction of a transmission link in the UK.
3. Amounts receivable from associates includes a loan receivable balance from Quadgas HoldCo Limited of £434 million as a result of the sale of the UK Gas Distribution business (see note 9 for additional information) and a loan receivable balance of £61 million from Nemo Link Limited.
4. Amounts payable to joint ventures include deposits received for National Grid property sites from St William Homes LLP.
5. Dividends in respect of joint ventures were received from BritNed Development Limited.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in note 23. For details of Directors' and key management remuneration, refer to the audited section of the Remuneration Report and note 3(c). Information regarding the disposal of UK Gas Distribution is included in note 9.

30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

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

30. Financial risk management continued

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2017, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G8 sovereign entities (AAA)	Unlimited	Unlimited
Triple 'A' vehicles (AAA)	326	277
Triple 'A' range institutions and non G8 sovereign entities (AAA)	1,113 to 1,680	560 to 878
Double 'A+' G8 sovereign entities (AA+)	1,680	878
Double 'A' range institutions (AA)	665 to 837	338 to 418
Single 'A' range institutions (A)	229 to 326	116 to 167

As at 31 March 2016 and 2017, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Commodity credit risk

The credit policy for US-based commodity transactions is owned by the Finance Committee to the Board, which establishes controls and procedures to determine, monitor and minimise the credit exposure to counterparties. Authority to administer the policy has been delegated to the Energy Procurement Risk Management Committee by the Board and the Executive Committee.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 18.

30. Financial risk management continued

(a) Credit risk continued

Offsetting financial assets and liabilities

The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contracts that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

National Grid has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2017	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	**1,707**	**–**	**1,707**	**(718)**	**(692)**	**297**
Commodity contracts	**106**	**–**	**106**	**(25)**	**–**	**81**
	1,813	**–**	**1,813**	**(743)**	**(692)**	**378**
Liabilities						
Derivative financial instruments	**(2,223)**	**–**	**(2,223)**	**718**	**1,230**	**(275)**
Commodity contracts	**(170)**	**–**	**(170)**	**25**	**18**	**(127)**
	(2,393)	**–**	**(2,393)**	**743**	**1,248**	**(402)**
	(580)	**–**	**(580)**	**–**	**556**	**(24)**

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2016	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	1,963	–	1,963	(997)	(597)	369
Commodity contracts	33	(1)	32	(4)	–	28
	1,996	(1)	1,995	(1,001)	(597)	397
Liabilities						
Derivative financial instruments	(2,069)	–	(2,069)	997	932	(140)
Commodity contracts	(145)	10	(135)	4	20	(111)
	(2,214)	10	(2,204)	1,001	952	(251)
	(218)	9	(209)	–	355	146

1. The gross financial assets and liabilities offset in the statement of financial position primarily relate to commodity contracts. Offsets relate to margin payments for NYMEX gas futures which are traded on a recognised exchange.

Notes to the consolidated financial statements
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30. Financial risk management continued

(b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 28 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2017	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(5,142)	(1,864)	(1,750)	(19,245)	(28,001)
Interest payments on borrowings[1]	(767)	(707)	(670)	(12,975)	(15,119)
Finance lease liabilities	(66)	(58)	(61)	(183)	(368)
Other non-interest bearing liabilities	(2,989)	(260)	–	–	(3,249)
Derivative financial liabilities					
Derivative contracts – receipts	571	961	572	234	2,338
Derivative contracts – payments	(1,551)	(959)	(304)	(610)	(3,424)
Commodity contracts	(15)	(18)	(8)	–	(41)
	(9,959)	(2,905)	(2,221)	(32,779)	(47,864)

At 31 March 2016	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,225)	(1,777)	(1,760)	(20,831)	(27,593)
Interest payments on borrowings[1]	(839)	(806)	(746)	(13,549)	(15,940)
Finance lease liabilities	(53)	(58)	(43)	(130)	(284)
Other non-interest bearing liabilities	(2,755)	(230)	–	–	(2,985)
Derivative financial liabilities					
Derivative contracts – receipts	314	487	846	811	2,458
Derivative contracts – payments	(389)	(964)	(855)	(914)	(3,122)
Commodity contracts	(104)	(32)	(9)	1	(144)
	(7,051)	(3,380)	(2,567)	(34,612)	(47,610)

1. The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(c) Interest rate risk

National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 20 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

30. Financial risk management continued

(c) Interest rate risk continued

During 2017 and 2016, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2017 Fixed rate £m	2017 Floating rate £m	2017 Inflation linked £m	2017 Other[1] £m	2017 Total £m	2016 Fixed rate £m	2016 Floating rate £m	2016 Inflation linked £m	2016 Other[1] £m	2016 Total £m
Cash and cash equivalents	940	199	–	–	1,139	1	126	–	–	127
Financial investments	44	8,691	–	6	8,741	54	2,939	–	5	2,998
Borrowings[2]	(17,681)	(3,917)	(7,040)	–	(28,638)	(17,706)	(3,008)	(7,629)	(1)	(28,344)
Pre-derivative position	(16,697)	4,973	(7,040)	6	(18,758)	(17,651)	57	(7,629)	4	(25,219)
Derivative effect[3]	1,424	(1,785)	(155)	–	(516)	1,788	(2,481)	587	–	(106)
Net debt position	(15,273)	3,188	(7,195)	6	(19,274)	(15,863)	(2,424)	(7,042)	4	(25,325)

1. Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
2. Includes bank overdrafts.
3. The impact of 2017/18 (2016: 2016/17) maturing short-dated interest rate derivatives is included.

(d) Currency risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain a percentage of net debt and foreign exchange forwards so as to provide an economic offset. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of a joint venture investment.

During 2017 and 2016, derivative financial instruments were used to manage foreign currency risk as follows:

	2017 Sterling £m	2017 Euro £m	2017 Dollar £m	2017 Other £m	2017 Total £m	2016 Sterling £m	2016 Euro £m	2016 Dollar £m	2016 Other £m	2016 Total £m
Cash and cash equivalents	1,110	–	29	–	1,139	3	1	123	–	127
Financial investments	6,824	98	1,753	66	8,741	1,201	105	1,622	70	2,998
Borrowings[1]	(11,099)	(5,373)	(10,729)	(1,437)	(28,638)	(13,131)	(5,061)	(8,806)	(1,346)	(28,344)
Pre-derivative position	(3,165)	(5,275)	(8,947)	(1,371)	(18,758)	(11,927)	(4,955)	(7,061)	(1,276)	(25,219)
Derivative effect	2,310	6,241	(10,708)	1,641	(516)	2,374	4,971	(8,989)	1,538	(106)
Net debt position	(855)	966	(19,655)	270	(19,274)	(9,553)	16	(16,050)	262	(25,325)

1. Includes bank overdrafts.

The exposure to dollars largely relates to our net investment hedge activities; exposure to euros largely relates to hedges for our future non-sterling capital expenditure as described in note 16.

The currency exposure on other financial instruments is as follows:

	2017 Sterling £m	2017 Euro £m	2017 Dollar £m	2017 Other £m	2017 Total £m	2016 Sterling £m	2016 Euro £m	2016 Dollar £m	2016 Other £m	2016 Total £m
Trade and other receivables	83	–	1,660	–	1,743	220	8	1,236	–	1,464
Trade and other payables	(1,209)	–	(1,795)	–	(3,004)	(1,380)	–	(1,471)	–	(2,851)
Other non-current assets	(100)	–	(315)	–	(415)	(17)	–	(252)	–	(269)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

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30. Financial risk management continued

(e) Commodity risk

We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 39. They are, therefore, not recognised in the financial statements until they are realised. Disclosure of commitments under such contracts is made in note 28.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps and options contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through earnings.

The fair value of our commodity contracts by type can be analysed as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	**–**	**(10)**	**(10)**	–	(26)	(26)
Forward purchases of gas	**82**	**(97)**	**(15)**	25	(27)	(2)
Derivative financial instruments linked to commodity prices						
Electricity capacity	**2**	**–**	**2**	2	–	2
Electricity swaps	**11**	**(61)**	**(50)**	2	(69)	(67)
Electricity options	**–**	**–**	**–**	–	(1)	(1)
Gas swaps	**11**	**(2)**	**9**	3	(12)	(9)
	106	**(170)**	**(64)**	32	(135)	(103)

The maturity profile of commodity contracts is as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than one year	**54**	**(93)**	**(39)**	22	(96)	(74)
	54	**(93)**	**(39)**	22	(96)	(74)
Non-current						
In 1 to 2 years	**8**	**(36)**	**(28)**	8	(30)	(22)
In 2 to 3 years	**7**	**(9)**	**(2)**	1	(9)	(8)
In 3 to 4 years	**6**	**(7)**	**(1)**	–	–	–
In 4 to 5 years	**6**	**(5)**	**1**	–	–	–
More than 5 years	**25**	**(20)**	**5**	1	–	1
	52	**(77)**	**(25)**	10	(39)	(29)
	106	**(170)**	**(64)**	32	(135)	(103)

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2017	2016
Forward purchases of electricity[1]	**159 GWh**	481 GWh
Forward purchases/sales of gas[2]	**54m Dth**	44m Dth
Electricity swaps	**12,776 GWh**	11,786 GWh
Electricity options	**17,793 GWh**	22,375 GWh
Electricity capacity	**1 kWm**	1 kWm
Gas swaps	**83m Dth**	76m Dth
Gas options	**9m Dth**	16m Dth
NYMEX gas futures[3]	**3m Dth**	14m Dth

1. Forward electricity purchases have terms up to six years. The contractual obligations under these contracts are £15 million (2016: £40 million).
2. Forward gas purchases have terms up to four years. The contractual obligations under these contracts are £131 million (2016: £20 million).
3. NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

30. Financial risk management continued

(f) Capital risk management
The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 27). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 22, we monitor our balance sheet efficiency using several metrics including our retained cash flow/net debt and interest cover. Interest cover for the year ended 31 March 2017 was 5.0 (2016: 5.5). Our long-term target range for interest cover is greater than 3.0, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, NGET and NGG, based on guidance from the rating agencies.

In addition, we monitor the RAV gearing within each of NGET and the regulated transmission businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60 to 65%.

The majority of our regulated operating companies in the US and the UK (and one intermediate UK holding company), are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2017 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

(g) Fair value analysis
Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2017				2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Investments – available-for-sale	**7,717**	**315**	**5**	**8,037**	2,040	393	–	2,433
Investments – joint ventures and associates	**–**	**–**	**41**	**41**	–	–	–	–
Derivative financial instruments	**–**	**1,692**	**15**	**1,707**	–	1,945	18	1,963
Commodity contracts	**–**	**22**	**84**	**106**	–	5	27	32
	7,717	**2,029**	**145**	**9,891**	2,040	2,343	45	4,428
Liabilities								
Derivative financial instruments	**–**	**(1,743)**	**(480)**	**(2,223)**	–	(1,855)	(214)	(2,069)
Commodity contracts	**–**	**(70)**	**(100)**	**(170)**	–	(81)	(54)	(135)
	–	**(1,813)**	**(580)**	**(2,393)**	–	(1,936)	(268)	(2,204)
	7,717	**216**	**(435)**	**7,498**	2,040	407	(223)	2,224

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

30. Financial risk management continued

(g) Fair value analysis continued

Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps and equity options, all of which are traded on illiquid markets. In valuing these instruments an external valuation is obtained to support each reported fair value. We have reclassified sterling RPI swaps from level 2 into level 3 due to the long-dated and increased illiquid nature of these instruments, which has been driven by the lack of market participants for trades with this particular risk profile.

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

During the year to 31 March 2017, the Group made level 3 investments worth £46 million, consisting of a £41 million joint venture arrangement with Sunrun Neptune Investor 2016 LLC, accounted at fair value (note 15), and £5 million Series B preferred stocks in Enbala Holdings, Inc., accounted as available-for-sale. The Group is also party to the Further Acquisition Agreement which contains put/call options over 14% of the loan and equity it holds in Quadgas HoldCo Limited. The fair value of the options is considered to be zero at year end (notes 9 and 15).

The changes in value of our level 3 derivative financial instruments are as follows:

	Derivative financial instruments		Commodity contracts		Investments		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At 1 April	**(196)**	(166)	**(27)**	(42)	**–**	–	**(223)**	(208)
Net losses for the year[1,2]	**(35)**	(20)	**(2)**	(27)	**–**	–	**(37)**	(47)
Purchases[3]	**–**	1	**15**	13	**46**	–	**61**	14
Settlements	**–**	(11)	**(2)**	29	**–**	–	**(2)**	18
Reclassification into level 3[4]	**(234)**	–	**–**	–	**–**	–	**(234)**	–
At 31 March	**(465)**	(196)	**(16)**	(27)	**46**	–	**(435)**	(223)

1. Loss of £35 million (2016: £17 million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.
2. Loss of £21 million (2016: £28 million loss) is attributable to commodity contract financial instruments held at the end of the reporting period.
3. Purchases in the year relating to investments consist of £41 million in joint ventures and associates (Sunrun Neptune Investor 2016 LLC) and £5 million attributable to an available-for-sale investment in Enbala Holdings, Inc.
4. Sterling RPI swaps reclassified from level 2 into level 3.

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

	Derivative financial instruments		Commodity contracts		Investments	
	2017 Income statement £m	2016 Income statement £m	**2017 Income statement £m**	2016 Income statement £m	**2017 Income statement £m**	2016 Income statement £m
10% increase in commodity prices[1]	**–**	–	**1**	4	**–**	–
10% decrease in commodity prices[1]	**–**	–	**–**	–	**–**	–
Volume forecast uplift[2]	**–**	–	**(1)**	(1)	**–**	–
Volume forecast reduction[2]	**–**	–	**1**	1	**–**	–
+10% market area price change	**–**	–	**(13)**	(2)	**–**	–
–10% market area price change	**–**	–	**9**	2	**–**	–
+20 basis points change in Limited Price Inflation (LPI) market curve[3]	**(93)**	(83)	**–**	–	**–**	–
–20 basis points change in LPI market curve[3]	**88**	80	**–**	–	**–**	–
+50 basis points change in interest rates[4]	**–**	–	**–**	–	**8**	–
–50 basis points change in interest rates[4]	**–**	–	**–**	–	**(8)**	–

1. Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33.
2. Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.
3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.
4. The risk free rate and cost of debt were flexed in assessing the cost of carry for the Further Acquisition Agreement valuation sensitivity.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The level 3 investments were acquired in a recent period on market terms and sensitivity is considered insignificant at 31 March 2017.

31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2017, we had bilateral committed credit facilities of £4,938 million (2016: £2,808 million). In addition, we had committed credit facilities from syndicates of banks of £338 million at 31 March 2017 (2016: £295 million). All committed credit facilities were undrawn in 2017 and 2016. An analysis of the maturity of these undrawn committed facilities is shown below:

	2017 £m	2016 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	**–**	–
In 1 to 2 years	**1,115**	–
In 2 to 3 years	**2,388**	1,115
In 3 to 4 years	**–**	295
In 4 to 5 years	**1,773**	–
More than 5 years	**–**	1,693
	5,276	3,103

Of the unused facilities at 31 March 2017, £4,938 million (2016: £2,808 million) was held as backup to commercial paper and similar borrowings, while £338 million (2016: £295 million) is available as backup to specific US borrowings.

In addition to the above, the Group has Export Credit Agreements (ECAs) totalling £600 million, of which £562 million is undrawn.

Further information on our bonds can be found on the debt investor section of our website.

32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings
A list of the Group's subsidiaries as at 31 March 2017 is given below. The entire share capital of subsidiaries is held within the Group except where the Group's ownership percentages are shown. These percentages give the Group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the Group's voting rights and equity holding. Shares in National Grid (US) Holdings Limited, National Grid Holdings One plc and NGG Finance plc are held directly by National Grid plc. All other holdings in subsidiaries are owned by other subsidiaries within the Group. All subsidiaries are consolidated in the Group's financial statements.

Principal Group companies are identified in **bold**. These companies are incorporated and principally operate in the countries under which they are shown.

Incorporated in England and Wales
Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

Beegas Nominees Limited
Birch Sites Limited
Carbon Sentinel Limited
Droylsden Metering Services Limited
Gridcom Limited
Icelink Interconnector Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Limited
Lattice Group Trustees Limited
Natgrid Limited
NatGrid One Limited
NatgridTW1 Limited
National Grid Belgium Limited
National Grid Blue Power Limited
National Grid Carbon Limited
National Grid Commercial Holdings Limited
National Grid Distributed Energy Limited
National Grid Electricity Group Trustee Limited
National Grid Electricity Transmission plc
National Grid Energy Metering Limited
National Grid Four Limited
National Grid Fourteen Limited
National Grid Gas Holdings Limited
National Grid Gas plc
National Grid Grain LNG Limited
National Grid Holdings Limited
National Grid Holdings One plc
National Grid IFA 2 Limited
National Grid Interconnector Holdings Limited
National Grid Interconnectors Limited
National Grid International Limited
National Grid Metering Limited
National Grid North Sea Link Limited
National Grid Offshore Limited (previously Cadent Services Limited)*
National Grid Property Holdings Limited
National Grid Property (Northfleet) Limited1**
National Grid Seventeen Limited
National Grid Smart Limited
National Grid Ten
National Grid Thirty Five Limited
National Grid Thirty Four Limited (previously Cadent Gas Limited)*
National Grid Thirty Six Limited (previously Cadent Finance Limited)*
National Grid Twelve Limited
National Grid Twenty Eight Limited
National Grid Twenty-Five Limited
National Grid Twenty Seven Limited
National Grid Twenty Three Limited
National Grid UK Limited
National Grid UK Pension Services Limited
National Grid (US) Holdings Limited
National Grid (US) Investments 2 Limited
National Grid (US) Investments 4 Limited
National Grid (US) Partner 1 Limited
National Grid Ventures Limited
National Grid Viking Link Limited
National Grid William Limited
NG Nominees Limited
NGC Employee Shares Trustee Limited
NGG Finance plc
Ngrid Intellectual Property Limited
NGT Telecom No. 1 Limited
NGT Two Limited
Port Greenwich Limited
Stargas Nominees Limited
Supergrid Electricity Limited
Supergrid Energy Transmission Limited
Supergrid Limited
Thamesport Interchange Limited
The National Grid Group Quest Trustee Company Limited
The National Grid YouPlan Trustee Limited
Transco Limited

1. Registered office: 15 Canada Square, London E14 5GL, UK
* Change of name effective from 2 May 2017
** In liquidation

32. Subsidiary undertakings, joint ventures and associates continued

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Boston Gas Company (including Essex Gas Company)[1]
British Transco Capital Inc.
British Transco Finance, Inc.
Broken Bridge Corp.[2]
Colonial Gas Company[1]
EUA Energy Investment Corporation[1]
GridAmerica Holdings Inc.
Grid NY LLC[3]
KeySpan CI Midstream Limited
KeySpan Corporation[3]
KeySpan Energy Corporation[3]
KeySpan Energy Services Inc.
KeySpan Gas East Corporation[3]
KeySpan International Corporation
KeySpan MHK, Inc.
KeySpan Midstream Inc.
KeySpan Plumbing Solutions, Inc.[3]
KSI Contracting, LLC
KSI Electrical, LLC
KSI Mechanical, LLC
Land Management & Development, Inc.[3]
Landwest, Inc.[3]
Massachusetts Electric Company[1]
Metro Energy, LLC[3]
Metrowest Realty LLC
Mystic Steamship Corporation
Nantucket Electric Company[1]
National Grid Algonquin LLC
National Grid Connect Inc.[1]
National Grid Development Holdings Corp.
National Grid Electric Services, LLC[3]
National Grid Energy Management, LLC
National Grid Energy Services LLC
National Grid Energy Trading Services LLC[3]
National Grid Engineering & Survey Inc.[3]
National Grid Generation LLC[3]
National Grid Generation Ventures LLC[3]
National Grid Glenwood Energy Center, LLC
National Grid Green Homes Inc.[3]
National Grid IGTS Corp.[3]
National Grid Insurance USA Ltd[3]
National Grid Islander East Pipeline LLC
National Grid LNG GP LLC
National Grid LNG LLC
National Grid LNG LP LLC
National Grid Millennium LLC
National Grid NE Holdings 2 LLC[1]
National Grid North America Inc.
National Grid North East Ventures Inc.
National Grid Port Jefferson Energy Center LLC
National Grid Services Inc.
National Grid Technologies Inc.[3]
National Grid Transmission Services Corporation[1]
National Grid US 6 LLC
National Grid US LLC
National Grid USA
National Grid USA Service Company, Inc.[1]
Nees Energy, Inc.[1]
New England Electric Transmission Corporation[2]
New England Energy Incorporated[1]
New England Hydro Finance Company, Inc. (53.704%)[1]
New England Hydro-Transmission Corporation (53.704%)[2]
New England Hydro-Transmission Electric Company Inc. (53.704%)[1]
New England Power Company[1]
Newport America Corporation[4]
NGNE LLC
Niagara Mohawk Energy, Inc.
Niagara Mohawk Holdings, Inc.[3]
Niagara Mohawk Power Corporation[3]
NM Properties, Inc.[3]
North East Transmission Co., Inc.
Opinac North America, Inc.
Philadelphia Coke Co., Inc.
Port of the Islands North, LLC[3]
The Brooklyn Union Gas Company[3]
The Narragansett Electric Company[4]
Transgas, Inc.[1]
Upper Hudson Development Inc.[3]
Valley Appliance and Merchandising Company[4]
Vermont Green Line Devco, LLC (90%)
Wayfinder Group, Inc.[1]

Incorporated in Australia
National Grid Australia Pty Limited
Registered office: Level 7, 330 Collins Street, Melbourne VIC 3000, Australia

Incorporated in Canada
Keyspan Energy Development Co.
Registered office: 1959 Upper Water St, Ste 800, Halifax NS, Canada B3J 2X2

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 (unless stated otherwise in footnotes).

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

Incorporated in the Isle of Man
Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK (unless stated otherwise in footnotes).

Lattice Telecom Finance (No 1) Limited[5]*
National Grid Insurance Company (Isle of Man) Limited
NGT Holding Company (Isle of Man) Limited

Incorporated in Jersey
Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG, UK (unless stated otherwise in footnotes).

National Grid Jersey Investments Limited
NG Jersey Limited

Incorporated in the Netherlands
British Transco International Finance B.V.
Registered office: Westblaak 89, 3012 KG Rotterdam, P.O. Box 21153, 3001 AD, Rotterdam, Netherlands

National Grid Holdings B.V.
Registered office: Prins Bernhardplein 200, Amsterdam, 1097 JB, Netherlands

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

1. Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA
2. Registered office: Corporation Service Company, 10 Ferry Street, Suite 313, Concord NH 03301, Merrimack County, USA
3. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA
4. Registered office: Corporation Service Company, 222 Jefferson Boulevard, Suite 200, Warwick RI 02888, Kent County, USA
5. Registered office: Heritage Court, 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK

* In liquidation

Notes to the consolidated financial statements
– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates continued

Joint ventures
A list of the Group's joint ventures as at 31 March 2017 is given below. All joint ventures are included in the Group's financial statements using the equity method of accounting. Principal joint ventures are identified in **bold**.

Incorporated in England and Wales
Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

BritNed Development Limited (50%)*
Joint Radio Company Limited (50%)[1]**
Nemo Link Limited (50%)
NGET/SPT Upgrades Limited (50%)†
St William Homes LLP (50%)[2]

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Clean Energy Generation, LLC (50%)
East Hampton Energy Storage Center, LLC (50%)
Island Park Energy Center, LLC (50%)
Islander East Pipeline Company, LLC (50%)
LI Energy Storage System, LLC (50%)
LI Solar Generation, LLC (50%)
Montauk Energy Storage Center, LLC (50%)
Swan Lake North Holdings LLC (50%)

Incorporated in France
IFA2 SAS (50%)
Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 – 9291, Paris La Defense, CEDEX, France

Associates
A list of the Group's associates as at 31 March 2017 is given below. All associates are included in the Group's financial statements using the equity method of accounting. Principal associates are identified in **bold**.

Incorporated in England and Wales
Quadgas HoldCo Limited (39%)
Registered office: Ashbrook Court, Prologis Park, Central Boulevard, Coventry CV7 8PE, UK

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Algonquin Gas Transmission, LLC (20%)[3]
Clean Line Energy Partners LLC (32%)
Connecticut Yankee Atomic Power Company (19.5%)[4]
Direct Global Power, Inc. (26%)[5]
Energy Impact Fund LP (33%)[6]
Maine Yankee Atomic Power Company (24%)[7]
Millennium Pipeline Company, LLC (26.25%)
New York Transco LLC (28.3%)[5]
Nysearch RMLD, LLC (22.63%)
Sunrun Neptune Investor 2016 LLC[8]***
Yankee Atomic Electric Company (34.5%)[9]

Incorporated in Belgium
Coreso SA (16.67%)
Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

Other investments
A list of the Group's other investments as at 31 March 2017 is given below.

Incorporated in England and Wales
Energis PLC (33.06%)‡
Registered office: 1 More London Place, London SE1 2AF, UK

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1. Registered office: Dean Bradley House, 52 Horseferry Road, London SW1P 2AF, UK
2. Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
3. Registered office: Corporation Trust Company, 1209 Orange, Wilmington DE 19808, New Castle County, USA
4. Registered office: Robert K. Darden, Main Street, Salisbury CT 06068, USA
5. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA
6. Registered office: Harvard Business Services, Inc., 16192 Coastal Highway, Lewes DE 19958, Sussex County, USA
7. Registered office: R. Scott Mahoney, 83 Edison Drive, Augusta ME 04336, USA
8. Registered office: 595 Market Street, 29th Floor, San Francisco, CA 94105, USA
9. Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA

* National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share
** National Grid Gas plc owns all £1.00 A Ordinary shares
*** National Grid Green Homes Inc owns 1,000 Class A Membership Interests
† National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares
‡ In administration

Our interests and activities are held or operated through the subsidiaries, joint arrangements or associates as disclosed above. These interests and activities (and their branches) are established in – and subject to the laws and regulations of – these jurisdictions.

33. Sensitivities on areas of estimation and uncertainty

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the tables below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example, a 10% increase in unbilled revenue at 31 March 2017 would result in an increase in the income statement of £58 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2017		2016	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average change in useful economic lives (pre-tax):				
Depreciation charge on property, plant and equipment	**70**	**70**	79	79
Amortisation charge on intangible assets	**18**	**18**	20	20
Estimated future cash flows in respect of provisions, change of 10% (pre-tax)	**259**	**259**	172	172
Assets and liabilities carried at fair value change of 10% (pre-tax):				
Derivative financial instruments[1]	**(52)**	**(52)**	(11)	(11)
Commodity contract liabilities	**(6)**	**(6)**	(10)	(10)
Pensions and other post-retirement benefits[2] (pre-tax):				
UK discount rate change of 0.5%[3]	**9**	**1,305**	11	1,482
US discount rate change of 0.5%[3]	**17**	**669**	16	640
UK RPI rate change of 0.5%[4]	**8**	**1,114**	9	1,268
UK long-term rate of increase in salaries change of 0.5%[5]	**2**	**80**	2	87
US long-term rate of increase in salaries change of 0.5%	**3**	**51**	3	45
UK change of one year to life expectancy at age 65	**2**	**673**	2	703
US change of one year to life expectancy at age 65	**4**	**365**	3	295
Assumed US healthcare cost trend rates change of 1%	**37**	**510**	35	514
Unbilled revenue at 31 March change of 10% (post-tax)	**58**	**58**	58	58
No hedge accounting for our derivative financial instruments (post-tax)	**(862)**	**158**	(123)	36
Commodity risk[6] (post-tax):				
10% increase in commodity prices	**28**	**28**	22	22
10% decrease in commodity prices	**(29)**	**(29)**	(22)	(22)

1. The effect of a 10% change in fair value assumes no hedge accounting.
2. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
3. 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.
4. 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.
5. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.
6. Represents potential impact on fair values of commodity contracts only.

33. Sensitivities on areas of estimation and uncertainty continued

	2017		2016	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax):				
UK RPI change of 0.5%[1]	**28**	**–**	31	–
UK interest rates change of 0.5%	**64**	**35**	76	85
US interest rates change of 0.5%	**61**	**22**	66	17
US dollar exchange rate change of 10%[2]	**46**	**604**	57	553

1. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(g).
2. The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £988 million (2016: £788 million) in the opposite direction if the dollar exchange rate changed by 10%.

Pensions and other post-retirement benefits assumptions

Sensitivities have been prepared to show how the DB 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.

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contracts. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis for continuing operations:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2017 and 2016 respectively;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guarantors commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are 100% owned and National Grid plc's guarantee of Niagara Mohawk Power Corporation's preferred shares is full and unconditional pursuant to Rule 3-10(i)(8) (i) and (ii) of Regulation S-X. The guarantees of National Grid Gas plc and National Grid plc are joint and several.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosures in these financial statements.

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2017. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,388	–	1,376	11,435	(164)	15,035
Operating costs:							
Depreciation and amortisation	–	(193)	–	(256)	(1,032)	–	(1,481)
Payroll costs	–	(326)	–	(114)	(1,138)	–	(1,578)
Purchases of electricity	–	(511)	–	–	(678)	–	(1,189)
Purchases of gas	–	(140)	–	(67)	(1,056)	–	(1,263)
Rates and property tax	–	(188)	–	(101)	(753)	–	(1,042)
Balancing Service Incentive Scheme	–	–	–	–	(1,120)	–	(1,120)
Payments to other UK network owners	–	–	–	–	(1,008)	–	(1,008)
Other operating costs	–	(435)	–	(394)	(2,481)	164	(3,146)
	–	(1,793)	–	(932)	(9,266)	164	(11,827)
Total operating profit	–	595	–	444	2,169	–	3,208
Net finance income/(costs)	8,177	(101)	–	(253)	(8,910)	–	(1,087)
Dividends receivable	–	–	–	–	8,100	(8,100)	–
Interest in equity accounted affiliates	(401)	–	–	–	63	401	63
Profit before tax	7,776	494	–	191	1,422	(7,699)	2,184
Tax	19	(181)	–	16	(228)	–	(374)
Profit after tax from discontinued operations	–	–	–	4,633	1,351	–	5,984
Profit for the year	7,795	313	–[1]	4,840	2,545	(7,699)	7,794
Amounts recognised in other comprehensive income from continuing operations[2]	578	–	–	114	177	(291)	578
Amounts recognised in other comprehensive income from discontinued operations[2]	42	–	–	51	(62)	11	42
Total comprehensive income for the year	**8,415**	**313**	**–**	**5,005**	**2,660**	**(7,979)**	**8,414**
Attributable to:							
Equity shareholders	8,415	313	–	5,005	2,661	(7,979)	8,415
Non-controlling interests	–	–	–	–	(1)	–	(1)
	8,415	**313**	**–**	**5,005**	**2,660**	**(7,979)**	**8,414**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc Re-presented[1] £m	Other subsidiaries Re-presented[1] £m	Consolidation adjustments[1] £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,027	–	1,244	10,069	(128)	13,212
Operating costs:							
Depreciation and amortisation	–	(162)	–	(255)	(894)	–	(1,311)
Payroll costs	–	(260)	–	(115)	(962)	–	(1,337)
Purchases of electricity	–	(484)	–	–	(828)	–	(1,312)
Purchases of gas	–	(86)	–	(75)	(806)	–	(967)
Rates and property tax	–	(155)	–	(101)	(643)	–	(899)
Balancing Service Incentive Scheme	–	–	–	–	(907)	–	(907)
Payments to other UK network owners	–	–	–	–	(971)	–	(971)
Other operating costs	–	(433)	–	(173)	(1,805)	128	(2,283)
	–	(1,580)	–	(719)	(7,816)	128	(9,987)
Total operating profit	–	447	–	525	2,253	–	3,225
Net finance income/(costs)	701	(87)	–	(132)	(1,437)	–	(955)
Dividends receivable	–	–	–	–	620	(620)	–
Interest in equity accounted affiliates	1,843	–	–	33	59	(1,876)	59
Profit before tax	2,544	360	–	426	1,495	(2,496)	2,329
Tax	47	(141)	–	(56)	(277)	–	(427)
Profit after tax from discontinued operations	–	–	–	735	(43)	–	692
Profit for the year	2,591	219	–[2]	1,105	1,175	(2,496)	2,594
Amounts recognised in other comprehensive income from continuing operations[3]	502	(1)	–	8	426	(433)	502
Amounts recognised in other comprehensive income from discontinued operations[3]	71	–	–	(13)	153	(140)	71
Total comprehensive income for the year	**3,164**	**218**	**–**	**1,100**	**1,754**	**(3,069)**	**3,167**
Attributable to:							
Equity shareholders	3,164	218	–	1,100	1,751	(3,069)	3,164
Non-controlling interests	–	–	–	–	3	–	3
	3,164	**218**	**–**	**1,100**	**1,754**	**(3,069)**	**3,167**

1. Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc Re-presented[1] £m	Other subsidiaries Re-presented[1] £m	Consolidation adjustments[1] £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,109	–	1,270	10,097	(119)	13,357
Operating costs:							
Depreciation and amortisation	–	(146)	–	(254)	(790)	–	(1,190)
Payroll costs	–	(256)	–	(101)	(935)	–	(1,292)
Purchases of electricity	–	(604)	–	–	(1,081)	–	(1,685)
Purchases of gas	–	(147)	–	(74)	(1,171)	–	(1,392)
Rates and property tax	–	(146)	–	(99)	(611)	–	(856)
Balancing Service Incentive Scheme	–	–	–	–	(874)	–	(874)
Payments to other UK network owners	–	–	–	–	(801)	–	(801)
Other operating costs	–	(501)	–	(254)	(1,680)	119	(2,316)
	–	(1,800)	–	(782)	(7,943)	119	(10,406)
Total operating profit	–	309	–	488	2,154	–	2,951
Net finance costs	(223)	(76)	–	(246)	(492)	–	(1,037)
Dividends receivable	–	–	–	–	700	(700)	–
Interest in equity accounted affiliates	2,192	–	–	8	46	(2,200)	46
Profit before tax	1,969	233	–	250	2,408	(2,900)	1,960
Tax	50	(98)	–	(65)	(354)	–	(467)
Profit after tax from discontinued operations	–	–	–	584	(66)	–	518
Profit for the year	2,019	135	–[2]	769	1,988	(2,900)	2,011
Amounts recognised in other comprehensive income from continuing operations[3]	(327)	1	–	(4)	(497)	501	(326)
Amounts recognised in other comprehensive income from discontinued operations[3]	(68)	–	–	26	81	(107)	(68)
Total comprehensive income for the year	**1,624**	**136**	**–**	**791**	**1,572**	**(2,506)**	**1,617**
Attributable to:							
Equity shareholders	1,624	136	–	791	1,579	(2,506)	1,624
Non-controlling interests	–	–	–	–	(7)	–	(7)
	1,624	**136**	**–**	**791**	**1,572**	**(2,506)**	**1,617**

1. Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	763	–	–	5,333	–	6,096
Other intangible assets	–	–	–	125	798	–	923
Property, plant and equipment	–	6,553	–	4,358	28,914	–	39,825
Other non-current assets	–	7	–	9	105	–	121
Amounts owed by subsidiary undertakings	342	–	239	3,426	2,576	(6,583)	–
Pension assets	–	223	–	45	335	–	603
Financial and other investments	17,689	31	–	95	12,429	(27,061)	3,183
Derivative financial assets	149	–	–	813	553	–	1,515
Total non-current assets	18,180	7,577	239	8,871	51,043	(33,644)	52,266
Current assets							
Inventories and current intangible assets	–	38	–	20	345	–	403
Trade and other receivables	–	507	–	360	2,232	–	3,099
Amounts owed by subsidiary undertakings	12,734	505	6	1,965	12,083	(27,293)	–
Financial and other investments	5,471	29	–	1,835	1,406	–	8,741
Derivative financial assets	202	–	–	51	133	(194)	192
Cash and cash equivalents	1,090	4	–	(9)	54	–	1,139
Total current assets	19,497	1,083	6	4,222	16,253	(27,487)	13,574
Total assets	**37,677**	**8,660**	**245**	**13,093**	**67,296**	**(61,131)**	**65,840**
Current liabilities							
Borrowings	(1,120)	(55)	(5)	(833)	(3,483)	–	(5,496)
Derivative financial liabilities	(533)	–	–	(185)	(530)	194	(1,054)
Trade and other payables	(46)	(353)	–	(342)	(2,697)	–	(3,438)
Amounts owed to subsidiary undertakings	(12,012)	–	–	(2,151)	(13,130)	27,293	–
Current tax liabilities	(3)	(156)	–	(9)	61	–	(107)
Provisions	–	–	–	(184)	(232)	–	(416)
Total current liabilities	(13,714)	(564)	(5)	(3,704)	(20,011)	27,487	(10,511)
Non-current liabilities							
Borrowings	(1,262)	(2,345)	(239)	(3,879)	(15,417)	–	(23,142)
Derivative financial liabilities	(272)	–	–	(234)	(663)	–	(1,169)
Other non-current liabilities	–	(350)	–	(204)	(893)	–	(1,447)
Amounts owed to subsidiary undertakings	(2,058)	–	–	(756)	(3,769)	6,583	–
Deferred tax liabilities	(3)	(1,178)	–	(369)	(2,929)	–	(4,479)
Pensions and other post-retirement benefit obligations	–	(889)	–	–	(1,647)	–	(2,536)
Provisions	–	(298)	–	(104)	(1,770)	–	(2,172)
Total non-current liabilities	(3,595)	(5,060)	(239)	(5,546)	(27,088)	6,583	(34,945)
Total liabilities	**(17,309)**	**(5,624)**	**(244)**	**(9,250)**	**(47,099)**	**34,070**	**(45,456)**
Net assets	**20,368**	**3,036**	**1**	**3,843**	**20,197**	**(27,061)**	**20,384**
Equity							
Share capital	449	149	–	45	182	(376)	449
Share premium account	1,324	2,431	–	204	8,033	(10,668)	1,324
Retained earnings	22,582	456	1	2,268	11,914	(14,639)	22,582
Other equity reserves	(3,987)	–	–	1,326	52	(1,378)	(3,987)
Shareholders' equity	**20,368**	**3,036**	**1**	**3,843**	**20,181**	**(27,061)**	**20,368**
Non-controlling interests	–	–	–	–	16	–	16
Total equity	**20,368**	**3,036**	**1**	**3,843**	**20,197**	**(27,061)**	**20,384**

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	664	–	–	4,651	–	5,315
Other intangible assets	–	–	–	239	648	–	887
Property, plant and equipment	–	5,466	–	12,628	25,270	–	43,364
Other non-current assets	–	7	–	41	34	–	82
Amounts owed by subsidiary undertakings	318	–	209	5,609	2,630	(8,766)	–
Pension assets	–	125	–	–	285	–	410
Financial and other investments	17,428	26	–	86	10,131	(26,792)	879
Derivative financial assets	157	–	–	1,014	514	–	1,685
Total non-current assets	17,903	6,288	209	19,617	44,163	(35,558)	52,622
Current assets							
Inventories and current intangible assets	–	42	–	26	369	–	437
Trade and other receivables	1	413	–	432	1,626	–	2,472
Amounts owed by subsidiary undertakings	11,516	300	6	57	12,785	(24,664)	–
Financial and other investments	1,244	28	–	116	1,610	–	2,998
Derivative financial assets	279	–	–	66	131	(198)	278
Cash and cash equivalents	1	4	–	–	126	(4)	127
Total current assets	13,041	787	6	697	16,647	(24,866)	6,312
Total assets	**30,944**	**7,075**	**215**	**20,314**	**60,810**	**(60,424)**	**58,934**
Current liabilities							
Borrowings	(933)	(47)	(5)	(602)	(2,028)	4	(3,611)
Derivative financial liabilities	(239)	–	–	(39)	(257)	198	(337)
Trade and other payables	(43)	(248)	–	(661)	(2,333)	–	(3,285)
Amounts owed to subsidiary undertakings	(12,633)	–	–	(1,518)	(10,513)	24,664	–
Current tax liabilities	(3)	(61)	–	(34)	(154)	–	(252)
Provisions	–	–	–	(55)	(181)	–	(236)
Total current liabilities	(13,851)	(356)	(5)	(2,909)	(15,466)	24,866	(7,721)
Non-current liabilities							
Borrowings	(1,194)	(2,043)	(209)	(6,078)	(15,209)	–	(24,733)
Derivative financial liabilities	(358)	–	–	(527)	(847)	–	(1,732)
Other non-current liabilities	–	(297)	–	(1,031)	(743)	–	(2,071)
Amounts owed to subsidiary undertakings	(1,982)	–	–	(1,174)	(5,610)	8,766	–
Deferred tax liabilities	(4)	(939)	–	(1,548)	(2,143)	–	(4,634)
Pensions and other post-retirement benefit obligations	–	(761)	–	–	(2,234)	–	(2,995)
Provisions	–	(250)	–	(126)	(1,107)	–	(1,483)
Total non-current liabilities	(3,538)	(4,290)	(209)	(10,484)	(27,893)	8,766	(37,648)
Total liabilities	**(17,389)**	**(4,646)**	**(214)**	**(13,393)**	**(43,359)**	**33,632**	**(45,369)**
Net assets	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**
Equity							
Share capital	447	130	–	45	182	(357)	447
Share premium account	1,326	2,119	–	204	8,033	(10,356)	1,326
Retained earnings	16,305	180	1	5,400	9,316	(14,897)	16,305
Other equity reserves	(4,523)	–	–	1,272	(90)	(1,182)	(4,523)
Shareholders' equity	**13,555**	**2,429**	**1**	**6,921**	**17,441**	**(26,792)**	**13,555**
Non-controlling interests	–	–	–	–	10	–	10
Total equity	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**

34. Additional disclosures in respect of guaranteed securities continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2017							
Net cash flow from operating activities – continuing operations	53	757	–	918	2,592	–	4,320
Net cash flow from operating activities – discontinued operations	–	–	–	450	459	–	909
Net cash flow from/(used in) investing activities – continuing operations	4,181	(469)	15	215	(1,118)	(6,458)	(3,634)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	5,618	(6,298)	–	(680)
Net cash flow (used in)/from financing activities – continuing operations	(3,146)	(288)	(15)	(8,322)	3,771	6,458	(1,542)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	1,120	491	–	1,611
Net increase/(decrease) in cash and cash equivalents in the year	**1,088**	**–**	**–**	**(1)**	**(103)**	**–**	**984**
Year ended 31 March 2016							
Net cash flow from operating activities – continuing operations	57	580	–	599	3,056	–	4,292
Net cash flow from operating activities – discontinued operations	–	–	–	1,144	(68)	–	1,076
Net cash flow from/(used in) investing activities – continuing operations	502	(440)	13	56	(1,721)	(1,869)	(3,459)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	(562)	(15)	–	(577)
Net cash flow (used in)/from financing activities – continuing operations	(555)	(148)	(13)	(1,185)	(1,173)	1,869	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(63)	(60)	–	(123)
Net increase/(decrease) in cash and cash equivalents in the year	4	(8)	–	(11)	19	–	4
Year ended 31 March 2015							
Net cash flow from operating activities – continuing operations	38	531	–	489	2,963	–	4,021
Net cash flow from operating activities – discontinued operations	–	–	–	1,086	(100)	–	986
Net cash flow from/(used in) investing activities – continuing operations	2,103	(393)	–	(130)	(990)	(2,057)	(1,467)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	(473)	(61)	–	(534)
Net cash flow (used in)/from financing activities – continuing operations	(2,169)	(145)	–	(889)	(1,981)	2,057	(3,127)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(70)	(56)	–	(126)
Net (decrease)/increase in cash and cash equivalents in the year	(28)	(7)	–	13	(225)	–	(247)

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £6,006 million during the year ended 31 March 2017 (2016: £930 million; 2015: £1,355 million).

Maturity analysis of parent Company borrowings

	2017 £m	2016 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,120**	933
In 1 to 2 years	**515**	–
In 2 to 3 years	**425**	482
In 3 to 4 years	**–**	395
In 4 to 5 years	**322**	–
More than 5 years	**–**	317
	2,382	2,127

Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

A. Basis of preparation

National Grid plc is the parent company of the National Grid Group which is engaged in the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited company, limited by shares. The Company is incorporated and domiciled in England, with its registered office at 1–3 Strand, London, WC2N 5EH.

The financial statements of National Grid plc for the year ended 31 March 2017 were approved by the Board of Directors on 17 May 2017. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly these individual financial statements of the Company 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 provisions of the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, 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 prepared on this basis.

These individual financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

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.

The Company has not presented its own profit and loss account or statement of comprehensive income as permitted by section 408 of the Companies Act 2006.

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;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures 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 also 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.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements. Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the valuation of financial instruments and derivatives.

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

B. Fixed asset investments

Investments held as fixed assets 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

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the temporary differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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

E. Financial instruments
The Company's accounting policies are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 14, 16, 18, 19, 20 and 21 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

F. Hedge accounting
The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 16 to the consolidated financial statements.

G. Parent Company guarantees
The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings
The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

I. Dividends
Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

J. Directors' remuneration
Full details of Directors' remuneration are disclosed on pages 54 to 71.

Company balance sheet
as at 31 March

	Notes	2017 £m	2016 £m
Fixed assets			
Investments	1	**8,880**	8,845
Current assets			
Debtors (amounts falling due within one year)	2	**12,936**	11,796
Debtors (amounts falling due after more than one year)	2	**491**	475
Investments	5	**5,471**	1,244
Cash at bank and in hand		**1,090**	1
Total current assets		**19,988**	13,516
Creditors (amounts falling due within one year)	3	**(13,714)**	(13,851)
Net current assets/(liabilities)		**6,274**	(335)
Total assets less current liabilities		**15,154**	8,510
Creditors (amounts falling due after more than one year)	3	**(3,595)**	(3,538)
Net assets		**11,559**	4,972
Equity			
Share capital	7	**449**	447
Share premium account		**1,324**	1,326
Cash flow hedge reserve		**11**	17
Other equity reserves		**337**	302
Profit and loss account	8	**9,438**	2,880
Total shareholders' equity		**11,559**	4,972

The Company's profit after tax for the year was £8,197 million (2015/16: £748 million). The financial statements of the Company on pages 168 to 171 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Company statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2015	443	1,331	17	280	3,726	5,797
Profit for the year	–	–	–	–	748	748
Other equity movements						
Scrip dividend related share issue[1]	4	(5)	–	–	–	(1)
Purchase of treasury shares	–	–	–	–	(267)	(267)
Issue of treasury shares	–	–	–	–	16	16
Purchase of own shares	–	–	–	–	(6)	(6)
Share awards to employees of subsidiary undertakings	–	–	–	22	–	22
Dividends paid to equity shareholders	–		–	–	(1,337)	(1,337)
At 31 March 2016	447	1,326	17	302	2,880	4,972
Profit for the year	–	–	–	–	8,197	8,197
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	–	–	(6)	–	–	(6)
Total comprehensive (loss)/income for the year	–	–	(6)	–	8,197	8,191
Other equity movements						
Scrip dividend related share issue[1]	2	(2)	–	–	–	–
Purchase of treasury shares	–	–	–	–	(189)	(189)
Issue of treasury shares	–	–	–	–	18	18
Purchase of own shares	–	–	–	–	(5)	(5)
Share awards to employees of subsidiary undertakings	–	–	–	35	–	35
Dividends paid to equity shareholders	–	–	–	–	(1,463)	(1,463)
At 31 March 2017	**449**	**1,324**	**11**	**337**	**9,438**	**11,559**

1. Included within share premium account are costs associated with scrip dividends.

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2015	8,823
Additions	22
At 31 March 2016	8,845
Additions	35
At 31 March 2017	**8,880**

During the year there was a capital contribution of £35 million (2016: £22 million) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The Company's direct subsidiary undertakings as at 31 March 2017 were as follows:
- National Grid Holdings One plc
- National Grid (US) Holdings Limited
- NGG Finance plc.

The names of indirect subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements.

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

2. Debtors

	2017 £m	2016 £m
Amounts falling due within one year		
Derivative financial instruments (note 4)	**202**	279
Amounts owed by subsidiary undertakings	**12,734**	11,516
Prepayments and accrued income	**–**	1
	12,936	11,796
Amounts falling due after more than one year		
Derivative financial instruments (note 4)	**149**	157
Amounts owed by subsidiary undertakings	**342**	318
	491	475

The carrying values stated above are considered to represent the fair values of the assets.

3. Creditors

	2017 £m	2016 £m
Amounts falling due within one year		
Borrowings (note 6)	**1,120**	933
Derivative financial instruments (note 4)	**533**	239
Amounts owed to subsidiary undertakings	**12,012**	12,633
Corporation tax payable	**3**	3
Other creditors	**46**	43
	13,714	13,851
Amounts falling due after more than one year		
Borrowings (note 6)	**1,262**	1,194
Derivative financial instruments (note 4)	**272**	358
Amounts owed to subsidiary undertakings[1]	**2,058**	1,982
Deferred tax	**3**	4
	3,595	3,538

1. All amounts owed to subsidiary undertakings in 2017 and 2016 are repayable after five years.

The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

	Deferred tax £m
At 1 April 2015	3
Charged to the profit and loss account	1
At 31 March 2016	4
Credited to equity	(1)
At 31 March 2017	**3**

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2017			2016		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**202**	**(533)**	**(331)**	279	(239)	40
Amounts falling due after more than one year	**149**	**(272)**	**(123)**	157	(358)	(201)
	351	**(805)**	**(454)**	436	(597)	(161)

For each class of derivative the notional contract[1] amounts are as follows:

	2017 £m	2016 £m
Interest rate swaps	**(2,801)**	(2,442)
Cross-currency interest rate swaps	**(3,995)**	(3,537)
Foreign exchange forward contracts	**(17,134)**	(14,361)
	(23,930)	(20,340)

1. The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

5. Investments

The following table sets out the Company's current asset investments:

	2017 £m	2016 £m
Investments in short-term money funds	**4,981**	1,007
Managed investments in bonds	**100**	–
Restricted balances – collateral	**390**	237
	5,471	1,244

6. Borrowings

The following table analyses the Company's total borrowings:

	2017 £m	2016 £m
Amounts falling due within one year		
Bank overdrafts	**1**	–
Bank loans	**–**	28
Bonds	**22**	21
Commercial paper	**1,097**	884
	1,120	933
Amounts falling due after more than one year		
Bonds	**1,262**	1,194
	2,382	2,127

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or FRS 101 'Reduced Disclosure Framework'.

The notional amount of borrowings outstanding as at 31 March 2017 was £2,357 million (2016: £2,101 million). Further information on significant borrowings can be found on the debt investors section of our website.

7. Share capital

The called-up share capital amounting to £449 million (2016: £447 million) consists of 3,942,983,447 (2016: 3,924,038,086) ordinary shares. For further information on share capital, refer to note 25 to the consolidated financial statements.

8. Shareholders' equity and reserves

At 31 March 2017 the profit and loss account reserve stood at £9,438 million (2016: £2,880 million) of which £86 million (2016: £86 million) related to gains on intra-group transactions which was not distributable to shareholders. The company had no employees in either the current or prior year and accordingly bore no employee costs.

For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.

9. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2017, the sterling equivalent amounted to £2,404 million (2016: £2,674 million). The guarantees are for varying terms from less than one year to open-ended.

In addition, 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).

10. Audit fees

The audit fee in respect of the parent Company was £29,230 (2016: £28,380). Fees payable to PricewaterhouseCoopers LLP for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.

Additional Information contents

The business in detail

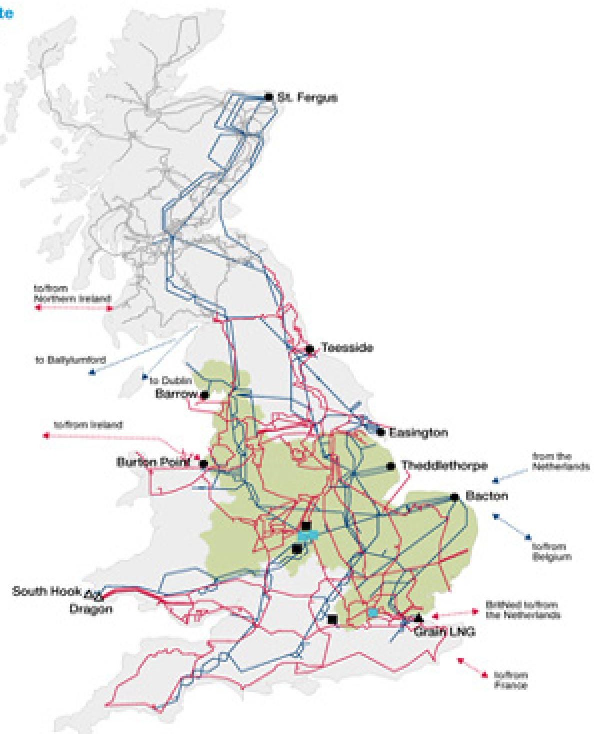
Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986	British Gas (BG) privatisation
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	Centrica demerged from BG
	Energis demerged from National Grid
2000	Lattice Group demerged from BG and listed separately
	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
	National Grid and Lattice Group merged to form National Grid Transco
2004	UK wireless infrastructure network acquired from Crown Castle International Corp
2005	Four UK regional gas distribution networks sold and National Grid adopted as our name
2006	Rhode Island gas distribution network acquired
2007	UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold
	KeySpan Corporation acquired
2008	Ravenswood generation station sold
2010	Rights issue raised £3.2 billion
2012	New Hampshire electricity and gas distribution businesses sold
2016	National Grid separated the UK Gas Distribution business
2017	National Grid sold a 61% equity interest in its UK Gas Distribution business

Where we operate

Our UK network



UK Transmission[1]

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 7,200 kilometres (4,474 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 342 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

UK Gas Distribution[1]

- Gas distribution operating area

Approximately 131,000 kilometres (81,400 miles) of gas distribution pipeline owned and operated by National Grid.[2]

Following completion of the sale of a 61% stake in the UK Gas Distribution business on 31 March 2017, the Group has ceased to consolidate UK Gas Distribution with effect from this date. Accordingly, the operating area relating to the UK Gas Distribution business will not be included in the map in 2017/18.

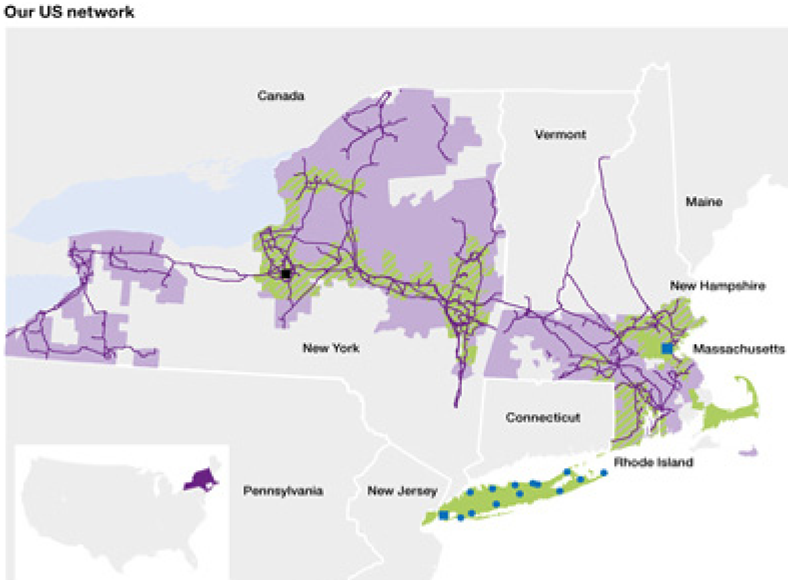
Principal offices

- Owned office space: Hinckley, Warwick and Wokingham
- Leased office space: Solihull, Coventry and London

Leased office space totalling 13,714 square metres (147,616 square feet) with remaining terms of six to nine years.

The Hinckley and Coventry offices shown on the map relate to the UK Gas Distribution business. Therefore these will not be included in the map in 2017/18.

Our US network



US Regulated[1]

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,219 kilometres (8,835 miles) of overhead line, 166 kilometres (103 miles) of underground cable and 377 transmission substations.

An electricity distribution network of approximately 116,658 circuit kilometres (72,488 miles) and 763 distribution substations in New England and upstate New York.

A network of approximately 56,753 kilometres (35,265 miles) of gas pipeline serving an area of approximately 25,625 square kilometres (9,894 square miles).
Our network also consists of approximately 790 kilometres (491 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 52,676 square metres (567,000 square feet) with remaining terms of 8 to 12 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

1 Access to electricity and gas transmission and distribution assets on property owned by others is controlled through various agreements.

2 As submitted by the Company in its 2015/16 Gas Distribution Regulatory Reporting Pack.

UK Regulation

Our licences are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers. These include the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has established price control mechanisms that set the amount of revenue our regulated businesses can earn. Price control regulation is designed to make sure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices. This gives us a future level of revenue that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investment.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

- efficiently deliver by investment and maintenance the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

As announced on 31 March 2017, a majority interest in the UK Gas Distribution business was sold to a consortium of investors. The Consortium comprises Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. National Grid has retained a 39% equity interest in the new separate Gas Distribution business and will account for the interest as an equity investment in an associate going forward.

The UK Electricity Transmission (UK ET), UK Gas Transmission (UK GT) and UK Gas Distribution (UK GD)† businesses operate under eight separate price controls in the UK. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as system operator (SO); two for our UK GT operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. While each of the eight price controls may have differing terms, they are based on a consistent regulatory framework.

There is no impact on the price controls following the sale of a majority interest of the UK Gas Distribution business. The eight price controls, as mentioned above, remain in force. National Grid will carry on operating within four of the price controls (National Grid Electricity Transmission plc and National Grid Gas plc), and the UK Gas Distribution business has responsibility for operating within the price controls relating to its four gas distribution networks.

In addition to the eight price controls, there is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities carried out by National Grid Metering.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. These sales revenues are called congestion revenues because market price differences result from the congestion on the finite interconnector capacity, which limits full price convergence. European legislation above the cap are returned to transmission system users and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk).

The cap and floor regime is now the regulated route for interconnector investment in GB, which sits alongside the exemption route (whereby project developers apply for exemptions from aspects of European legislation).

RIIO price controls

Our regulatory framework is called RIIO (revenue = incentives + innovation + outputs) and lasts for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are six output categories:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives – specifically, facilitating the reduction of carbon emissions – as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

Social obligations (UK GD only): extending the gas network to communities that are fuel poor where it is efficient to do so, and introducing measures to address carbon monoxide poisoning.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is the sum of what was defined in previous price controls as operating expenditure (opex), capital expenditure (capex) and, in UK GD price controls, mains replacement expenditure (repex).

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex if actual prices or volumes differ governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention ranging from fully merchant (the project is fully reliant on sales of interconnector capacity) to cap and floor (where sales revenues

from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

† This was a National Grid business until 31 March 2017.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs is split between fast and slow money – a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control (except for UK GD's repex which changes on a linear scale across the price control). Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our RAV – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance.

The asset life for regulatory depreciation in electricity transmission spans 45 years across the RIIO period. This is also the case for the asset life depreciation for UK GD. We are also allowed to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has incentive mechanisms that encourage us to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

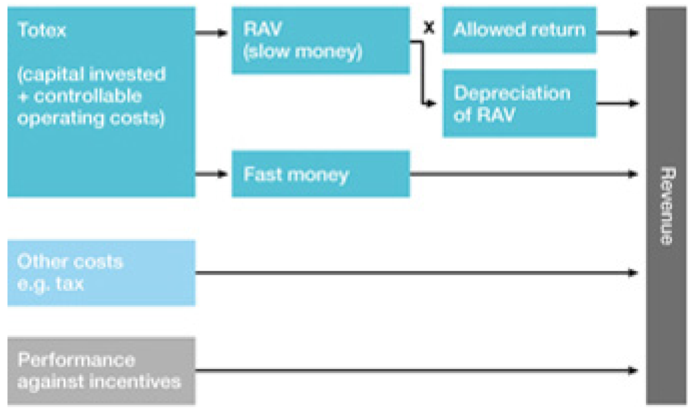
During the eight year period of the price control our regulator included a provision for a potential mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

The mid-period review focused on three specific areas, all of which relate to National Grid's transmission outputs (both gas and electricity).

Under the RIIO controls, we are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight year price control includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs. In May 2016, Ofgem decided to launch a mid-period review focusing on the transmission outputs.

RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under RIIO is as follows:

	Transmission		Gas Distribution[2]
	Gas	Electricity	
Cost of equity (post-tax real)	6.8%	7.0%	6.7%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (2.38% for 2016/17)		
Notional gearing	62.5%	60.0%	65.0%
Vanilla WACC[1]	4.03%	4.22%	3.89%

1. Vanilla WACC = cost of debt x gearing + cost of equity x (1-gearing).
2. This was a National Grid business until 31 March 2017.

The sharing factor means that any over- and under-spend is shared between the businesses and consumers. The shared figures displayed in the table below are the sharing factors that apply to UK ET, UK GT and UK GD.

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website.

Sharing factors under RIIO are as follows:

	Gas Transmission		Electricity Transmission		Gas Distribution[4]			
	Transmission Operator	**System Operator**	**Transmission Operator**	**System Operator**	**North West**	**East of England**	**West Midlands**	**London**
	Baseline[3] 35.6%				Repex: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	Uncertainty 10%	62.60%	15.00%	72.10%	73.90%	73.37%	75.05%	76.53%
	Baseline[3] 64.4%				Repex: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	Uncertainty 90%	37.40%	85.00%	27.90%	26.10%	26.63%	24.95%	23.47%

Sharing	44.36%	46.89%	63.04%

1. Fast money allows network companies to recover a percentage of total expenditure within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure automatically where the level outputs delivered differ from the baseline level, or if triggered by an event.
4. This was a National Grid business until 31 March 2017.

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecasted capital investments and operating costs.

US regulatory revenue requirement

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving the allowed RoE. These factors include financial market conditions, regulatory lag and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

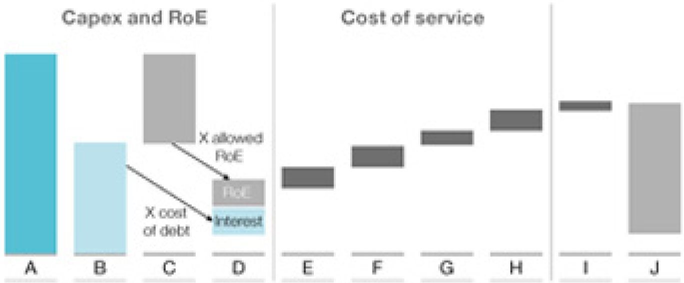
We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, meaning they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The Company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15-year and 25-year power supply agreements, and within wholesale tariffs



Our rate plans
Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

approved by FERC. Through the use of cost based formula rates, these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings
The objectives of our rate case filings are to make sure we have the right cost of service, with the ability to earn a fair and reasonable rate of return while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we

have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 179.

Below, we summarise significant developments in rate filings and the regulatory environment during the year. Following the final stabilisation upgrade to our new financial systems and the availability of 12 months of historical 'test year' data from those financial systems, we concluded a first round of full rate case filings in fiscal year 2017, with a final rate case decision for Massachusetts Electric in September 2016, and followed by approval of three-year rate plans for KEDNY and KEDLI in December 2016. We expect to make a number of additional such filings over the next two years to update the capital investment allowances and rate bases across many of our other businesses, including for upstate New York, Rhode Island and the Massachusetts gas companies in 2017–2018. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in the Company's US distribution activities.

Massachusetts

Massachusetts electric rate case

Subsequent to the Company's November 2015 general rate case filing, on 30 September 2016, MADPU issued a final order approving an overall increase in distribution revenue of approximately $101 million based upon an authorised return on equity of 9.9% and an authorised equity ratio of 50.70%. The order also allows for amortisation and recovery over five years of the $40.6 million of protected customer accounts receivable outstanding for more than 360 days. Storm recovery allowed in base rates increased from $4.3 million to $10.5 million. The order allows for an increase in annual capital investment recovery from $170 million to $249 million and the inclusion of property taxes related to these incremental capital additions.

Boston and Colonial rate cases

The Company plans to file a rate case for Boston Gas and Colonial Gas with MADPU in 2017 with new rates expected to come into effect in 2018. The Massachusetts Gas rate case, the first rate case for Boston Gas and Colonial Gas since 2010, will update the gas companies' allowed revenues to more closely reflect their cost of service and bring their earned RoEs closer to the allowed RoE.

Gas system enhancement programmes

On the gas side, on 5 May 2017, MADPU approved our recovery of approximately $50.6 million, related to $241 million of anticipated investments in 2017 under this accelerated pipe replacement program, through rates effective May 2016 through April 2018. However, due to the application of the GSEP revenue cap, we are required to defer from recovery an additional $5.5 million of the 2017 revenue requirement until such time that we have room under the GSEP revenue cap to recover the deferred amount or in the next rate case that covers the period of investment.

Grid modernisation and smart energy solutions

In response to a 2014 regulatory requirement, the Company filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options that would further MADPU's goals of reducing the effect of outages, optimising demand, integrating distributed resources, and improving workforce and asset management. The Company presented a range of investment options for MADPU to consider, with investment levels over five years ranging from $238.6 million to $792.9 million. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate the Pilot, and has proposed to continue the Pilot until 31 December 2018. This proposal is under review by MADPU.

Omnibus energy and solar legislation

In April 2016, Massachusetts solar legislation increased the amount of solar generation that a distribution company can own from 25 MWs to 35 MWs, subject to receipt of MADPU prior approval by 31 December 2016 and provided projects are constructed prior to 31 December 2017. MADPU approved the Company's proposal to own an additional 14 MWs on 30 December 2016. The solar legislation also increased the cap on net metered solar installations and allows electricity distribution companies to submit proposals for a monthly minimum reliability contribution to be included on electric bills for accounts that receive net metering credits subject to MADPU review and approval. The purpose of the monthly minimum reliability contribution is to ensure that customers contribute to the fixed costs of ensuring the reliability, proper maintenance and safety of the electric distribution system.

In August 2016, Massachusetts omnibus energy legislation, among other new policies, allowed for state mandated energy storage deployment targets (to be adopted by 1 July 2017) and established requirements for electricity distribution companies to jointly and competitively solicit long-term contracting proposals for clean energy generation equal to approximately 9,450,000 MWh per year by 31 December 2022 and proposals for offshore wind projects equal to approximately 1,600 MW of aggregate nameplate capacity by 30 June 2027. The first solicitations must be no later than 1 April 2017 and 30 June 2017, respectively, and any contracts must be approved by MADPU. Electricity distributors are entitled to cost recovery of payments under the contracts and may seek approval for annual remuneration equal to as much as 2.75% of the annual payments made under those contracts. The Act also directs MADPU to open an investigation to establish specific criteria to identify Grade 3 gas leaks on the gas distribution system that have a significant environmental impact, to establish a plan to have gas companies repair these leaks and to provide for recovery of leak repair expenses as part of the gas system enhancement programmes.

New York

Upstate New York 2017 Rate Filing

On 28 April 2017, the Company filed a one-year rate plan (but submitted two additional years of data to facilitate a multi-year settlement) for our upstate New York electricity and gas businesses, to increase electricity and gas delivery revenue by $326 million and $81 million, respectively, in the 12 months ending 31 March 2019 (fiscal year 2019). Additionally, the Company included a proposal to amortise a portion of its deferred liabilities to offset the Company's need for rate relief. The filing is based on an RoE of 9.79% for the one-year rate filing, and includes annual reconciliation mechanisms for certain non-controllable costs.

The filing, which is expected to take 11 months to review and to conclude in March 2018, includes investments of $652 million and $171 million of core investment in the electricity and gas businesses, respectively, in fiscal year 2019 to modernise our infrastructure and improve safety and reliability of our networks. New York rate cases often led to multi-year rate plan settlements, which the Company will pursue through negotiations in this case.

Reforming the Energy Vision (REV)

In April 2014, NYPSC instituted the REV proceeding, which envisions a new role for utilities as distributed system platform (DSP) providers who create markets for distributed energy resources (DER) and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability, and resiliency; and cleaner, more diverse electricity generation.

capital recovery mechanism. MADPU initiated its review of the Company's plan in April 2016 and hearings are scheduled for May 2017. The Company also has been operating a Smart Energy Solutions Pilot with approximately 15,000 customers in Worcester, Massachusetts, since 1 January 2015. The Pilot has allowed the Company to deploy, test and learn from technologies similar to those proposed in the grid modernisation plan, including smart meters, demand response, an integrated communication system, and advanced distribution automation. The Pilot was scheduled to end on 31 December 2016, but the Company has received preliminary approval to continue operating

NYPSC issued an order on 19 May 2016 addressing ratemaking and utility revenue model policy framework issues under REV, including ratemaking reform, earnings opportunities (platform service revenues and earning adjustment mechanisms or EAMs), competitive market-based earnings, customer data access, non-wires alternative solutions to displace traditional capital investment, standby service tariff enhancements, opt-in rate design (time-of-use rates, Smart Home rate pilots), enhancements to large customer demand charges, scorecard metrics, and mass market rate design. The Company's initial Distributed

System Implementation Plan (DSIP) was filed with NYPSC on 30 June 2016 and identified incremental investments in utility infrastructure necessary for developing DSP capabilities, market enablement and operations, advanced metering functionality, grid modernisation, and cyber security and privacy measures within the first five years. The DSIP is required to be updated and filed with NYPSC every two years. The Company rate plan filed in April 2017 incorporated investments related to advanced metering infrastructure (AMI), grid modernisation, cyber security, and new electricity and gas products and services. This rate plan also includes a proposal of outcome-based EAM to target energy and system efficiency, carbon reductions, and customer engagement.

Clean Energy Standard (CES)
NYPSC issued an order on 1 August 2016 adopting a CES, consistent with the State Energy Plan, that 50% of New York's electricity is to be generated by renewable sources by 2030 as part of a strategy to reduce greenhouse gas emissions by 40% by 2030. In particular, the CES established: obligations on load serving entities (LSEs) to financially support new renewable generation resources to serve their retail customers through Renewable Energy Credits (RECs) and to financially support existing at-risk nuclear generators through the purchase of zero emissions credits (ZECs). The first REC and ZEC compliance years under the CES begin 1 January 2017 and 1 April 2017, respectively.

KEDNY and KEDLI rate cases
On 29 January 2016, KEDNY and KEDLI filed base rate cases with NYPSC. On 16 December 2016, NYPSC issued an order adopting the terms of a Joint Proposal, establishing a three-year rate plan negotiated for KEDNY and KEDLI (calendar years 2017–2019). KEDNY's revenues under the Joint Proposal will increase by $272 million in 2017. For 2018 and 2019, incremental revenue increases will be $41 million and $49 million, respectively. KEDLI's revenues under the Joint Proposal will increase by $112 million in 2017. For 2018 and 2019, incremental revenue increases will be $20 million and $27 million, respectively. The revenue increases are based on a RoE of 9.0% and a 48% equity ratio. In addition to the revenue increases, the rate plans include funding for 380 new positions and maintain tracker and true-up mechanisms for property taxes, commodity-related bad debt, and pension/OPEBs, reconciling mechanisms for city/state construction-related costs and Site Investigation Remediation (SIR) recovery surcharge/tracker mechanisms, a gas safety and reliability surcharge to recover the costs of incremental leak-prone pipe replacement and leak repairs, and incentive opportunities.

Rhode Island

Rhode Island electricity and gas infrastructure, safety and reliability (ISR) plans
State law provides our Rhode Island electricity and gas operating divisions with rate mechanisms that allow for the recovery of capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual electricity and gas ISR plans.

RIPUC approved the fiscal year 2018 gas and electric ISR plans on 17 February 2017 and 9 March 2017, respectively. The electric ISR plan encompasses a $100.6 million spending programme for capital investment, $9.6 million for cost of removal, and $10.5 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses $101.8 million for capital investment and incremental operation and maintenance expense.

Rhode Island combined gas and electricity rate case
The Company anticipates filing a combined Rhode Island electricity and gas rate case in late 2017/early 2018, with new rates effective in 2018.

Changing distribution system and modernisation of rates
Numerous grid modernisation efforts are on-going in Rhode Island, including Docket 4600, Systems Integration Rhode Island (SIRI) and the Power Sector Transformation Initiative. In March 2016, RIPUC opened Docket 4600 to explore and understand the changing distribution system and related rate-setting processes through a stakeholder process. National Grid has been a participant in the Docket 4600 stakeholder process which will conclude in Spring 2017 with a set of recommendations. In December 2016, the National Governors Association selected Rhode Island as one of four states to participate in a 16-month collaborative effort with state agencies and key stakeholders, including the Company, to develop a state action plan for modernising the electric power sector and integrating clean energy. This effort, referred to as the Power Sector Transformation Initiative, builds off of the SIRI collaborative effort that began in 2014 and resulted in a vision document released in January 2016.

FERC

Complaints on New England transmission allowed RoE
In September 2011, December 2012, July 2014, and April 2016, a series of four complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE, which FERC had authorised at 11.14% prior to the first complaint. FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base RoE to 10.57%. A number of parties, including the Company, appealed FERC's order on the first complaint to US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC, requiring FERC to reconsider the methodology it adopted in its order. It is too early to determine when or how FERC will decide the four pending RoE complaints against the Company in light of the court's decision.

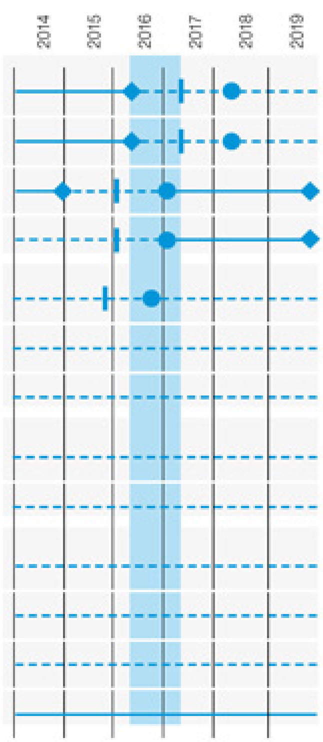
National Grid LNG LLC
On 1 April 2016, the Company filed an application seeking FERC approval of a planned $180 million liquefaction facility at the Providence, Rhode Island, LNG plant. We are currently awaiting a FERC order on our application. The target in-service date is December 2018. Rates for the new liquefaction service will be cost-based formula rates charged to customers who opt to take the liquefaction service.

New England gas and electricity interdependency
New England's gas and electricity systems have become increasingly interdependent as the region's reliance on gas-fired electricity generation has grown without commensurate pipeline infrastructure expansion, driving significant increases in the region's wholesale and retail electricity costs and electricity reliability concerns. To address this challenge, New England's governors are pursuing strategic infrastructure investments focused on expanding the region's energy portfolio.

In January and June 2016, our Massachusetts and Rhode Island electric utilities, respectively, filed long-term contracts with the Access Northeast gas pipeline for state regulatory approvals. The Company has an equity stake in the pipeline. The Company subsequently withdrew its Massachusetts filing after an August 2016 Massachusetts Supreme Judicial Court decision that prohibited MADPU from approving such contracts, and on 13 January 2017, the Company withdrew its application before RIPUC for approval of a contract with the pipeline.

The rate case provides an opportunity to recalibrate base rates to reflect changes in costs since the last rate case which was effective in February 2013. Rhode Island regulation also allows for proforma and normalising adjustments to test year data that include forecasts for costs expected in a future rate year.

Summary of US price controls and rate plans



Regulator	Rate plan	Rate base (31 Mar 2017)	Equity-to-debt ratio	Allowed return on equity	Achieved return on equity (31 Mar 2017)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-up§	Pension/ OPEB true-up◇
New York Public Service Commission	Niagara Mohawk[1, 4] (upstate, electricity)	$4,737m	48 : 52	9.3%	8.5%	✓	P	P	✓
	Niagara Mohawk[4] (upstate, gas)	$1,052m	48 : 52	9.3%	6.6%	✓	P	P	✓
	KEDNY (downstate)[2]	$2,722m	48 : 52	9.0%	8.2%	P	P	P	✓
	KEDLI (downstate)[3]	$2,256m	48 : 52	9.0%	9.5%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	$2,281m	51 : 49	9.9%	4.3%	✓	P	✓	✓
	Boston Gas[5]	$1,830m	50 : 50	9.75%	7.7%	✓	P	✓	✓
	Colonial Gas[5]	$421m	50 : 50	9.75%	7.4%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric[6]	$665m	49 : 51	9.5%	6.2%	✓	✓	P	✓
	Narragansett Gas[6]	$640m	49 : 51	9.5%	9.4%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett	$697m	50 : 50	10.57%	11.4%	n/a	✓	n/a	✓
	Canadian Interconnector	$31m	49 : 51	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power	$1,543m	66 : 34	10.57%	11.1%	n/a	✓	n/a	✓
	Long Island Generation	$422m	46 : 54	9.9%	12.0%	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).
4. The chart shows the anticipated date when new rates take effect; the rate filing may result in a multi-year rate plan settlement.
5. Boston Gas and Colonial Gas anticipate filing a rate case with the MADPU in 2017 with new rates expected to come into effect in 2018.
6. Narragansett anticipates electric and gas rate case filings in late 2017/early 2018, with new rates effective in 2018.

Rate filing made
New rates effective
Rate plan ends
Rates continue indefinitely
Multi-year rate plan

✓ Feature in place
P Feature partially in place
F Feature requested in pending filing

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◇Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2017. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, the effectiveness of any system of disclosure controls and procedures has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company’s internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2017.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2017, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 83.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 15 to 18. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities	
Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment. Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas. Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation. Safety is a fundamental priority for us and we commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.	We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by a failure to maintain the health of our assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology.

This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.

Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, (including any changes arising as a result of the UK's exit from the European Union), including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

(i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and

(ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change and of advancing energy technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide timely regulatory reporting, which may include the provision of financial statements. This could result in the imposition of regulatory fines, penalties and other sanctions, which could impact our operations, our reputation and our relationship with our regulators and other stakeholders.

For further information see pages 174 to 179, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Internal control and risk factors continued

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources) could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition, include acquisitions, disposals, joint ventures, partnering and organic investment opportunities such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency.

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, for example as a result of unexpected political or economic events. If we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures.

One of the principal limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate.

These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender’s discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, such as from our current PSEG-LI transition services agreement, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 181.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 36.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 54 to 71).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depositary payments to the Company

The Depositary reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depositary also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors.

For the period 19 May 2016 to 17 May 2017, the Company received a total of $2,126,791.80 in reimbursements from the Depositary consisting of $1,420,248.93 and $706,542.87 received in November 2016 and March 2017 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company, see below.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 207.

Description of securities other than equity securities: depositary fees and charges

The Bank of New York Mellon, as the Depositary, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depositary or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1 –3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period

There have been no material events affecting the Company since the year end.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non UK resident holders of ordinary shares except as otherwise set out in Taxation on page 187 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to US dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	Low
April 2017	1.2938	1.2392
March 2017	1.2570	1.2150
February 2017	1.2647	1.2429
January 2017	1.2605	1.2065
December 2016	1.2712	1.2226
		Average[1]
2016/17		1.31
2015/16		1.51
2014/15		1.61
2013/14		1.60
2012/13		1.57

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 85.

Material interests in shares

As at 31 March 2017, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights[1]
Black Rock, Inc.	226,594,591	6.01
The Capital Group Companies, Inc.	145,094,617	3.88
Competrol International Investments Limited	137,164,285	3.65

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 17 May 2017, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 184. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 17 May 2017, the share capital of the Company consists of ordinary shares of 11 $\frac{17}{43}$ pence nominal value each and ADSs, which represent five ordinary shares each. Subject to shareholder approval of the proposed share consolidation, at the General Meeting of the Company to be held on 19 May 2017, the nominal value of the Company's ordinary shares will be 12 $\frac{204}{473}$ pence with effect from 22 May 2017.

Authority to purchase shares

Shareholder approval was given at the 2016 AGM to purchase up to 10% of the Company's share capital (being 374,682,662 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2017 AGM.

In addition, the authority to purchase shares from the 2016 AGM is proposed for renewal at a General Meeting of the Company to be held on 19 May 2017 to cover the period between the date of the General Meeting and the 2017 AGM. The renewed authority is required due to the change to the nominal value of the ordinary shares that would result from the share consolidation proposed at the same General Meeting.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally.

As explained in the Notice of General Meeting issued on 19 April 2017, it is intended that part of the proceeds from the sale of a majority interest in the Company's UK Gas Distribution business will be returned to shareholders by way of purchase of the Company's shares. Subject to shareholder approval at the General Meeting to be held on 19 May 2017 and the 2017 AGM, the Company and the Directors therefore intend to use this authority in this context to return approximately £835 million to shareholders by way of on-market purchases of the Company's ordinary shares.

When purchasing shares, the Company has, and will continue to, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

During the year the Company purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital[1]
Shares held in Treasury purchased in prior years	179,045,081	£20,402,811.56	4.54 %
Shares purchased and held in Treasury during the year[2,3]	19,602,361	£2,233,757.42	0.50 %
Shares transferred from Treasury during the year (to employees under employee share plans)	6,027,564	£686,861.94	0.15 %
Maximum number of shares held in Treasury during the year	193,515,250	£22,051,737.79	4.91 %

1. Called up share capital of 3,942,983,436 ordinary shares as at the date of this report.
2. From 7 April 2016 to 14 February 2017.
3. Shares purchased for a total cost of £188,922,589.

	Total number of shares purchased	Average price paid per share (£)	Of which, number of shares purchased as part of publicly announced plans	Maximum value that may yet be purchased as part of publicly announced plans (£m)
April[1] (7 April 2016)	657,000	9.978	657,000	–
May	–	–	–	–
June	–	–	–	–
July	–	–	–	–
August	–	–	–	–
September	–	–	–	–
October	–	–	–	–
November[2] (25–30 Nov 2016)	1,250,000	9.146	1,250,000	–
December[2] (5–22 Dec 2016)	8,200,000	9.139	8,200,000	–
January[2] (4–27 Jan 2017)	5,997,044	9.330	5,997,044	–
February[3] (6–14 Feb 2017)	3,498,317	9.526	3,498,317	–
March	–	–	–	–
Total	19,602,361	9.295	19,602,361	–

The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

Shares were purchased as part of publicly announced plans, as detailed below, which have expired and under which the Company does not intend to make further purchases:

1. Announced: 23 February 2016 and Expired: 14 April 2016 (Authority for no. of shares: 3,357,000 of which 657,000 during the financial year ended 31 March 2017).
2. Announced: 24 November 2016 and Expired: 21 January 2017 (Authority for no. shares: 15,447,044 ordinary shares).
3. Announced: 6 February 2017 and Expired: 14 February 2017 (Authority for no. shares: 3,498,317 ordinary shares).

No purchases were made in the United States or in respect of the Company's ADSs.

As at the date of this report, the Company held 188,996,970 ordinary shares as treasury shares, representing 4.79% of the Company's called up share capital.

Authority to allot shares

Shareholder approval was given at the 2016 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers

The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year by the Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.

Source: Bloomberg

Price history

The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary share (pence)		ADS ($)	
	High	Low	High	Low
2016/17	1,148.00	888.90	74.97	56.50
2015/16	998.20	806.40	72.53	63.75
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2016/17 Q4	1,022.50	906.80	64.22	56.54
Q3	1,114.50	888.90	71.43	56.50
Q2	1,148.00	1,035.50	74.97	69.05
Q1	1,096.00	945.00	74.67	66.52
2015/16 Q4	998.20	906.10	72.47	64.76
Q3	968.57	890.60	72.53	67.31
Q2	918.90	806.40	69.71	63.75
Q1	940.90	817.20	72.14	64.37
April 2017	1,042.00	985.10	65.33	62.85
March 2017	1,022.50	909.31	64.22	59.24
February 2017	983.40	906.80	61.22	57.65
January 2017	969.30	912.30	59.54	56.54
December 2016	960.00	888.90	59.40	56.50

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2017.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	159,963	18.0110	4,561,644	0.1157
51–100	236,033	26.5760	16,694,761	0.4234
101–500	386,407	43.5073	81,585,725	2.0691
501–1,000	53,761	6.0532	37,453,393	0.9499
1,001–10,000	48,874	5.5029	121,025,841	3.0694
10,001–50,000	2,018	0.2272	35,655,682	0.9043
50,001–100,000	222	0.0250	16,330,876	0.4142
100,001–500,000	418	0.0471	102,792,008	2.607
500,001–1,000,000	125	0.0141	86,652,292	2.1976
1,000,001+	321	0.0361	3,440,231,225	87.2494
Total	888,142	100	3,942,983,447	100

Taxation

The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is beneficial owner of ADSs or ordinary shares that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our voting stock;
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- investors whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as ‘readily tradable’ on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as ‘readily tradable’ on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2017. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains

US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder’s adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder’s ability to deduct capital losses is subject to significant limitations.

UK stamp duty and stamp duty reserve tax (SDRT) Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on our website under: Investors, Shareholder centre, More information and help. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK- or US-based employees to participate in either HMRC (UK) or IRS (US) approved plans and to become shareholders in National Grid.

Sharesave

Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP

Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans

Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2016 are: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $53,000. For calendar year 2017, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $54,000.

ESPP

Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of $18,888 to purchase ADSs in National Grid.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2017, the Company had undrawn borrowing facilities of £3.7 billion available to it with a number of banks and a further £2.1 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website (where any amendments or waivers will also be posted) under: About us, Corporate governance, Code of Ethics. There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. During the year ended 31 March 2017, no actual or potential conflicts of interest were identified, which required approval by the Board. The Board has also considered and noted a number of situations in relation to which no actual conflict of interest was identified.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Code but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

- The NYSE rules and the Code apply different tests for the independence of Board members.
- The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.
- The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.
- The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non- executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

- The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Directors' indemnity

The Company 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, the Company places Directors' and Officers' liability insurance cover for each director.

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Human Rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our ethical business conduct guide – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have specific policies relating to human rights, slavery or human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct (GSCoC), we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code, the UK Modern Slavery Act 2015 and for our UK suppliers, the requirements of the Living Wage Foundation.

Listing Rule 9.8.4 R cross reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 103
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 187
Shareholder waivers of future dividends	Page 187
Agreements with controlling shareholders	Not applicable

Material contracts

On 8 December 2016, we agreed to sell a 61% equity interest in our UK Gas Distribution business to the Consortium pursuant to the terms of an acquisition agreement of that date. The sale of the 61% interest completed on 31 March 2017. National Grid and the Consortium have also entered into an agreement for the potential future sale and purchase of an additional 14% equity interest in the UK Gas Distribution business.

In addition, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two

Political donations and expenditure

At this year's AGM the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure in the European Union (EU), in each case in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide and as a result this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is therefore being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no donations in the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling $71,410 (£55,933) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found under the heading note 12 property, plant and equipment on pages 118 and 119, note 20 Borrowings on pages 127 and 128 and where we operate on page 173.

Research and development

Investment in research and development during the year for the Group, including discontinued operations, was £27 million (2015/16: £29 million; 2014/15: £23 million). Throughout 2016/17, innovation funding has sustained investment across all three of our UK Regulated business areas: UK ET, UK GT and UK GD. We have continued to challenge the way we work, collaborating across the industry in search of new technologies and techniques in our drive to deliver benefits for our stakeholders. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects.

The UK ET innovation investment continues to aim to advance our strategic ambitions to reduce the cost of providing a secure, reliable and sustainable electricity transmission system. Progress has been made on the design of our new 400kV research centre at Deeside.

We have successfully installed and pressurised the new insulating gas (Green Gas for Grid g^3), a potential replacement for SF6 for new transmission assets, on two gas insulated busbar sections at our substation in Sellindge. The equipment passed its High Voltage test on site and was energised in April 2017.

Research has also progressed our understanding of and ability to predict and manage the impact of increased levels of distributed and renewable generation on the system.

years immediately preceding the date of this report which is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

Our control room and forecasting team have already been able to use the initial output from our solar PV monitoring and forecasting work, to help with balancing the system at times of high levels of solar generation.

NGET's Transmission & Distribution Interface 2.0 project is an £8 million Ofgem Network Innovation Competition award announced on Wednesday 30 November 2016. This is a new regional power market trial that will improve interaction between National Grid's System Operator (SO), UK Power Networks' role as regional electricity distributor and renewable energy generators connected to the distribution system.

The market will help renewable energy generators to offer their services to National Grid's System Operator via a UK Power Networks' Distribution System Operator (DSO) platform. This approach will also provide additional services to UK Power Networks. Improving communication, coordination and developing new commercial frameworks will maximise network capacity by better managing system constraints, giving National Grid's System Operator access to previously unexploited power. It will also introduce new revenue streams for renewable energy generators. If successful, the regional power market model could be introduced to 59 other sites and potentially save up to £412 million for UK consumers by 2050.

We are also working in partnership with Scottish Power Electricity Networks on their £16 million Phoenix NIC project which aims to demonstrate how hybrid synchronous compensation could overcome technical limitations that currently limit the proportion of power generation from renewable sources and interconnectors that the Great Britain electricity system can handle. Our innovation portfolio has continued to develop throughout 2016/17, with a continued focus on new techniques for safety and risk reduction through projects such as 3D laser scanning for more accurate pipeline condition assessment and removable composite transition pieces to access pipelines more easily. Other projects have explored new techniques for valve sealant lines and improved techniques for compressor emissions monitoring. Demonstration of the value delivered to our customers has been a key priority in 2016/17 and continues to be going forward into 2017/18.

Innovation in UK GD continued to focus on six value areas which reflect both the RIIO outputs. We continued to develop and refine pipe-lining technologies to reduce the impact of our pipe replacement activities on our customers and the environment. In addition, we have made a new tool available for our engineers to help find underground pipes more quickly. We also explored how virtual reality technology can improve the way we train engineers.

Research, Development & Demonstration (RD&D) work in the US has focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic RD&D investment is needed and is likely to prove beneficial to National Grid. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for modernisation (Grid Modernization in Massachusetts and 'Reforming the Energy Vision' in New York).

In the year, we invested and participated in several significant pilot projects with the intent of obtaining operational knowledge and experience of technology-driven system impacts. Below are a few examples of our RD&D projects:

- We are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our 'Solar Phase II' programme. These PV sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide. Operating and analysing the performance of these grid interactive controls will help prepare and futureproof our system to enable a high penetration of the Distributed Energy Resources on the distribution system. We are also pre-approved to construct up to 14 MW of photovoltaic (PV) facilities in conjunction with 7 MW of battery storage in Massachusetts as part of our 'Solar Phase III' programme. The intent of this project is to demonstrate the value of energy storage in the system peak load shaving, solar ramp rate control and mitigation of power quality issues.
- We are engaged with Electric Power Research Institute (EPRI) on a number of programmes such as Distributed Energy Resources integration, energy storage and system planning. In February 2017, National Grid received two EPRI Technology Transfer awards for the RD&D work on Smart Inverters and distributed energy resources hosting capacity.
- We are progressing four New York REV pilot projects, which are
- 1) Fruit Belt Neighbourhood Solar, 2) Community Resilience,
- 3) Demand Reduction, and 4) Distribution System Platform to test new technologies and business models in which distributed energy resources are integrated for grid operations.
- We support several Department of Energy projects under the SunShot programme, aimed to further the integration and proliferation of solar PV.
- Lessons learned from the two-year Worcester Smart Energy Solutions pilot in Massachusetts and the Volt VAR Optimization and Conservation Voltage Reduction pilot in Rhode Island have helped shape larger scale grid modernisation proposals in each of our jurisdictions.
- We demonstrated electric robot and UAS (unmanned aircraft systems) technologies in our service area, and are working to integrate these technologies into our operations.
- We are preparing to demonstrate online monitoring technology at transmission substations in our New England service area in order to move towards enhanced condition-based asset management.
- We are building equipment test and training labs in order to support our initial upgrades of transmission substations across our service area to the IEC 61850 communications standard.

US expenditure for gas research, development and deployment of new technologies is largely funded through a special Regulatory Order and customer surcharge mechanism in New York State. Primary investments were in the areas of enhancements to improve overall customer safety; methane detection equipment is being deployed and tested both as mobile solutions to identify leakage in the field and in residential buildings. After completing extensive bench testing, we are continuing a pilot study in the use of existing and new technology for methane sensors within residential properties and working with standards organisations to enhance safety through the development of revised standards and specifications for improved detection levels and proper placement and use of detectors. We are evaluating best practices in automatic shut-off valves, excess flow valves and developing an integrated system to provide storm hardening (flood condition detection) with a methane detector in low pressure areas.

To further advance the safe operation of our systems, ongoing improvements for condition assessments of the most difficult to inspect pipelines are being enhanced through robotic inspection platforms with focus on crack detection sensors, Electromagnetic Acoustic Transducer, and developing tools to assess smaller diameter unpiggable steel pipelines. In addition, new tools and techniques are being developed to increase safety of the workforce, safely stop off mains and services with less excavation, improve welding practices and advance the inspection of polyethylene pipe construction, joint quality and the tracking and traceability of materials used in the construction of our transmission and distribution assets and to move toward more electronically and geospatially based records of field operations and construction.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Within the annual report a number of financial measures are presented. These measures have been categorised as either alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines, or as other financial information.

An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. Where appropriate, reconciliations of alternative performance measures to IFRS measures and/or definitions are provided.

The Group has defined the following financial measures as APMs: net revenue (reconciliations below), adjusted operating profit including and excluding timing (reconciliations below), adjusted earnings per share including and excluding timing (reconciliations below), net debt (included in note 27), capital investment (reconciliation below) and value added (reconciliation and definition on page 21). Adjusted profit and earnings metrics this year relate to both the continuing business and the Group as a whole i.e. including discontinued operations.

Other financial information presented includes additional non-IFRS reconciliations and are identified as follows: funds from operations (FFO) (reconciliation below), FFO/interest cover (reconciliation below) and retained cash flow (RCF)/adjusted net debt (reconciliation below).

Other financial information also includes regulatory measures: Group, UK and US regulatory return on equity (RoE) (reconciliation below), regulatory asset based growth (reconciliation below), regulatory gearing (description on page 151) and annual asset growth (reconciliation below).

Alternative performance measures (APMs)

Net revenue

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

	31 March 2017			31 March 2016 Re-presented[1]		
	Total sales	**Pass through costs**	**Net revenue**	Total sales	Pass through costs	Net revenue
UK Electricity Transmission	**4,439**	**(2,293)**	**2,146**	3,977	(2,030)	1,947
UK Gas Transmission	**1,080**	**(223)**	**857**	1,047	(221)	826
US Regulated	**8,931**	**(3,411)**	**5,520**	7,493	(3,154)	4,339
Other activities	**713**	**–**	**713**	824	–	824
Discontinued operations	**1,902**	**(350)**	**1,552**	1,949	(352)	1,597
Total	**17,065**	**(6,277)**	**10,788**	15,290	(5,757)	9,533

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and EPS into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 4 on page 101 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Continuing, discontinued and total Group profits and earnings

The analysis below combines information from elsewhere in the Annual Report (primarily note 9) to reflect key metrics for the Group as if UK Gas Distribution was consolidated throughout the year.

	Including timing Year ended 31 March								
	2017			2016			2015		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	**15,035**	**1,887**	**16,922**	13,212	1,903	15,115	13,357	1,844	15,201
Operating costs	**(11,262)**	**(993)**	**(12,255)**	(9,998)	(1,021)	(11,019)	(10,323)	(1,015)	(11,338)
Adjusted operating profit	**3,773**	**894**	**4,667**	3,214	882	4,096	3,034	829	3,863
Exceptional items and remeasurements	**(565)**	**–**	**(565)**	11	(22)	(11)	(83)	–	(83)
Statutory operating profit	**3,208**	**894**	**4,102**	3,225	860	4,085	2,951	829	3,780
Net finance costs (before exceptionals)	**(1,029)**	**(146)**	**(1,175)**	(856)	(157)	(1,013)	(872)	(161)	(1,033)
Finance exceptionals and remeasurements	**(58)**	**(6)**	**(64)**	(99)	–	(99)	(165)	–	(165)
Total net finance costs	**(1,087)**	**(152)**	**(1,239)**	(955)	(157)	(1,112)	(1,037)	(161)	(1,198)
Share of result of joint ventures and associates	**63**	**–**	**63**	59	–	59	46	–	46
Profit before tax	**2,184**	**742**	**2,926**	2,329	703	3,032	1,960	668	2,628
Tax	**(374)**	**(79)**	**(453)**	(427)	(11)	(438)	(467)	(150)	(617)
Profit after tax before gain on disposal	**1,810**	**663**	**2,473**	1,902	692	2,594	1,493	518	2,011
Gain on disposal of UK Gas Distribution	**–**	**5,321**	**5,321**	–	–	–	–	–	–
Profit after tax including gain on disposal	**1,810**	**5,984**	**7,794**	1,902	692	2,594	1,493	518	2,011

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items and remeasurements. Reconciliation of adjusted operating profit to statutory operating profit is included within note 2.

Reconciliation of adjusted operating profit excluding timing differences to total operating profit

Adjusted operating profit excluding timing differences is discussed on page 20.

	Year ended 31 March		
	2017 £m	2016 £m	2015 £m
Adjusted operating profit excluding timing differences	**4,291**	4,071	3,927
Timing differences from continuing operations	**398**	(1)	(77)
Timing differences from discontinued operations	**(22)**	26	13
Adjusted operating profit	**4,667**	4,096	3,863
Exceptional items and remeasurements	**(565)**	(11)	(83)
Total operating profit	**4,102**	4,085	3,780

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 7 to the consolidated financial statements on page 110.

	Including timing Year ended 31 March			Excluding timing Year ended 31 March		
	2017	2016[1]	2015[1]	**2017**	2016[1]	2015[1]
Continuing operations	**£m**	£m	£m	**£m**	£m	£m
Adjusted operating profit	**3,773**	3,214	3,034	**3,375**	3,215	3,111
Adjusted net finance costs	**(1,029)**	(856)	(872)	**(1,029)**	(856)	(872)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Adjusted profit before tax	**2,807**	2,417	2,208	**2,409**	2,418	2,285
Adjusted tax	**(666)**	(604)	(543)	**(547)**	(619)	(553)
Adjusted profit after tax	**2,141**	1,813	1,665	**1,862**	1,799	1,732
Attributable to non-controlling interests	**–**	(1)	10	**–**	(1)	10
Adjusted earnings from continuing operations	**2,141**	1,812	1,675	**1,862**	1,798	1,742
Exceptional items after tax	**(312)**	162	(99)	**(312)**	162	(99)
Remeasurements after tax	**(19)**	(73)	(73)	**(19)**	(73)	(73)
Earnings from continuing operations	**1,810**	1,901	1,503	**1,531**	1,887	1,570
Discontinued operations						
Adjusted operating profit	**894**	882	829	**916**	856	816
Adjusted net finance costs	**(146)**	(157)	(161)	**(146)**	(157)	(161)
Adjusted profit before tax	**748**	725	668	**770**	699	655
Adjusted tax	**(142)**	(149)	(152)	**(146)**	(144)	(150)
Adjusted profit after tax	**606**	576	516	**624**	555	505
Attributable to non-controlling interests	**1**	(2)	(2)	**1**	(2)	(2)
Adjusted earnings from discontinued operations	**607**	574	514	**625**	553	503
Exceptional items after tax from discontinued operations	**62**	116	2	**62**	116	2
Remeasurements after tax from discontinued operations	**(5)**	–	–	**(5)**	–	–
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	**5,321**	–	–
Earnings from discontinued operations	**5,985**	690	516	**6,003**	669	505

Reconciliation of adjusted operating profit to adjusted earnings and earnings continued

	Including timing			Excluding timing		
	Year ended 31 March			Year ended 31 March		
	2017 £m	2016[1] £m	2015[1] £m	**2017 £m**	2016[1] £m	2015[1] £m
Continuing and discontinued operations						
Adjusted operating profit	**4,667**	4,096	3,863	**4,291**	4,071	3,927
Adjusted net finance costs	**(1,175)**	(1,013)	(1,033)	**(1,175)**	(1,013)	(1,033)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Adjusted profit before tax	**3,555**	3,142	2,876	**3,179**	3,117	2,940
Adjusted tax	**(808)**	(753)	(695)	**(693)**	(763)	(703)
Adjusted profit after tax	**2,747**	2,389	2,181	**2,486**	2,354	2,237
Attributable to non-controlling interests	**1**	(3)	8	**1**	(3)	8
Total adjusted earnings	**2,748**	2,386	2,189	**2,487**	2,351	2,245
Total exceptional items after tax	**(250)**	278	(97)	**(250)**	278	(97)
Total remeasurements after tax	**(24)**	(73)	(73)	**(24)**	(73)	(73)
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	**5,321**	–	–
Total earnings	**7,795**	2,591	2,019	**7,534**	2,556	2,075

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Reconciliation of adjusted EPS to statutory EPS (including and excluding timing)

Adjusted EPS is presented in note 7 to the consolidated financial statements.

	Including timing			Excluding timing		
	Year ended 31 March			Year ended 31 March		
	2017 pence	2016[1] pence	2015[1] pence	**2017 pence**	2016[1] pence	2015[1] pence
Adjusted EPS from continuing operations	**56.9**	48.0	43.9	**49.5**	47.6	45.6
Exceptional items after tax from continuing operations	**(8.3)**	4.3	(2.6)	**(8.3)**	4.3	(2.6)
Remeasurements after tax from continuing operations	**(0.5)**	(1.9)	(1.9)	**(0.5)**	(1.9)	(1.9)
EPS from continuing operations	**48.1**	50.4	39.4	**40.7**	50.0	41.1
Adjusted EPS from discontinued operations	**16.1**	15.2	13.4	**16.6**	14.7	13.1
Exceptional items after tax from discontinued operations	**1.6**	3.1	0.1	**1.6**	3.1	0.1
Remeasurements after tax from discontinued operations	**(0.1)**	–	–	**(0.1)**	–	–
Gain on disposal of UK Gas Distribution after tax	**141.4**	–	–	**141.4**	–	–
EPS from discontinued operations	**159.0**	18.3	13.5	**159.5**	17.8	13.2
Total adjusted EPS	**73.0**	63.2	57.3	**66.1**	62.3	58.7
Total exceptional items after tax	**(6.7)**	7.4	(2.5)	**(6.7)**	7.4	(2.5)
Total remeasurements after tax	**(0.6)**	(1.9)	(1.9)	**(0.6)**	(1.9)	(1.9)
Gain on disposal of UK Gas Distribution after tax	**141.4**	–	–	**141.4**	–	–
Total EPS	**207.1**	68.7	52.9	**200.2**	67.8	54.3

1. Comparative information has been restated to reflect the classification of the UK Gas Distribution business as a discontinued operation and the additional shares issued as scrip dividends.

Capital investment

'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Property Limited joint venture during the period. St William Property Limited is excluded based on the nature of this joint venture arrangement.

	For the year ended 31 March		
£m	**2017**	2016	% change
UK Electricity Transmission	**1,027**	1,084	(5%)
UK Gas Transmission	**214**	186	15%
US Regulated	**2,247**	1,856	21%
Other activities[1]	**374**	254	47%
Discontinued operations	**588**	566	4%
Group capital investment	**4,450**	3,946	13%

1. Other activities capital investment includes investment in joint ventures, excluding equity contributions to St William Property Limited joint venture.

	For the year ended 31 March		
£m	**2017**	2016	% change
Capital expenditure	**3,735**	3,327	12%
Additions within discontinued operations	**588**	566	4%
Equity and funding contributions to joint ventures and associates	**127**	53	140%
Group capital investment	**4,450**	3,946	13%

Other unaudited financial information continued

Other financial information

Funds from operations and interest cover

Funds from operations (FFO) is the cash flows generated by the operations of the Group. Credit rating metrics including FFO are used as indicators of balance sheet strength.

For the years ended 31 March (£m)	2017	2016[1]	2015[1]
Interest expense (P&L)	**1,082**	1,035	1,069
Hybrid interest reclassified as dividend	**(51)**	(49)	(55)
Capitalised interest	**109**	112	86
Pensions interest adjustment	**(60)**	(60)	(48)
Interest on decommissioning liabilities adjustment	**1**	1	1
Interest on lease rentals adjustment	**18**	17	32
Unwinding of discount on provisions	**(73)**	(73)	(73)
Interest paid (discontinued operations)	**146**	–	–
Adjusted interest expense	**1,172**	983	1,012
Net cash inflow from operating activities	**4,320**	5,368	5,007
Interest income on financial instruments	**51**	23	37
Interest paid on financial instruments	**(839)**	(834)	(826)
Dividends received	**99**	72	79
Working capital adjustment	**(151)**	(456)	(301)
Excess employer pension contributions	**606**	301	237
Hybrid interest reclassified as dividend	**51**	49	55
Lease rentals	**86**	77	65
Difference in net interest expense in income statement to cash flow	**(170)**	(129)	(156)
Difference in current tax in income statement to cash flow	**(47)**	(42)	47
Current tax related to prior periods	**(46)**	(26)	(64)
Cash flow from discontinued operations	**909**	–	–
Interest paid (discontinued operations)	**(146)**	–	–
Adjusted funds from operations (FFO)	**4,723**	4,403	4,180
Interest cover (adjusted funds from operations + adjusted interest expense/adjusted interest expense)	**5.0x**	5.5x	5.1x

1. Numbers for 2016 and 2015 reflect the calculations for the total group as based on the published accounts for the respective years and have not been restated.

Retained cash flow (RCF)/adjusted net debt

For the years ended 31 March (£m)	2017	2016	2015
Adjusted funds from operations (FFO)	**4,723**	4,403	4,180
Hybrid interest reclassified as dividend	**(51)**	(49)	(55)
Dividends paid to shareholders	**(1,463)**	(1,337)	(1,271)
RCF (headline)	**3,209**	3,017	2,854
Purchase of treasury shares	**(189)**	(267)	(338)
RCF (net of share buybacks)	**3,020**	2,750	2,516
Bank overdrafts	**–**	3	3
Borrowings	**28,638**	28,341	25,907
Less:			
50% hybrid debt	**(1,033)**	(995)	(948)
Cash and cash equivalents	**(1,139)**	(127)	(119)
Restricted cash	**2**	2	1
Available-for-sale investments	**(7,432)**	(1,951)	(1,232)
Underfunded pension obligations	**1,487**	1,434	1,675
Operating leases adjustment	**526**	544	588
Derivative asset removed from debt	**52**	(183)	(89)
Currency swaps	**72**	55	453
Nuclear decommissioning liabilities reclassified as debt	**36**	38	22
Collateral – cash received under collateral agreements	**(709)**	(610)	(540)
Accrued interest removed from short term debt	**(210)**	(243)	(230)
Adjusted net debt (includes pension deficit)	**20,290**	26,308	25,491
FFO/adjusted net debt	**23.3%**	16.7%	16.4%
RCF (headline)/adjusted net debt	**15.8%**	11.5%	11.2%
RCF (net of share buybacks)/adjusted net debt	**14.9%**	10.5%	9.9%

Group return on equity (RoE)

The Group RoE 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.

Calculation: Regulatory financial performance including a long-run assumption of 3.0% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets.

- Adjusted interest removes interest on pensions, capitalised interest and release of provisions.
- Adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest.
- Equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of Other activities and our share of joint ventures and associates; minus opening net debt as reported under IFRS restated to the weighted average £/$ exchange rate for the year.

Group RoE calculation For the year ended 31 March £m	**2017**	2016	2015
Regulated financial performance	**3,906**	3,663	3,741
Operating profit of other activities	**204**	374	199
Group financial performance	**4,110**	4,037	3,940
Share of post-tax results of joint ventures & associates	**63**	59	46
Non-controlling interests	**1**	(3)	8
Adjusted Group interest charge	**(1,075)**	(922)	(945)
Group tax charge	**(808)**	(753)	(695)
Tax on adjustments	**166**	4	(14)
Group financial performance after interest and tax	**2,457**	2,422	2,340
Opening rate base/RAV	**40,435**	36,998	35,237
Opening NBV of non-regulated businesses	**1,579**	1,213	1,341
Joint ventures & associates	**408**	319	358
Opening goodwill	**5,984**	5,182	4,856
Opening capital employed	**48,406**	43,712	41,792
Opening net debt	**(27,346)**	(24,024)	(21,974)
Opening equity	**21,060**	19,688	19,818
Return on Equity	**11.7%**	12.3%	11.8%

UK regulated return on equity (RoE)

UK RoEs are measures of how the businesses are performing operationally against the assumptions used by the regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator and that RPI inflation is equal to a long-run assumption of 3.0%.

Calculation: Base allowed RoE plus or minus the following items:

- Additional allowed revenues/profits earned in the year from incentive schemes, less associated corporation tax charge;
- Totex outperformance multiplied by the company sharing factor set by the regulator; and
- Revenues (net of associated depreciation and base allowed asset return) allowed in the year associated with incentive performance earned under previous price controls but not yet fully recovered, less associated corporation tax charge (excluding logging up or pensions recovery).

Divided by average equity RAV in line with regulatory assumed capital structure.

US regulated return on equity (RoE)

US regulated RoE is a measure of how a business is performing operationally against the assumptions used by the regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric calculated annually.

Calculation: Regulated net income divided by equity rate base.

- Regulated net income calculated as US GAAP operating profit less interest on the adjudicated debt portion of the rate base (calculated at the actual rate on long term debt, adjusted where the proportion of long term debt in the capital structure is materially different from the assumed regulatory proportion) less tax at the adjudicated rate.
- Regulated net income is adjusted for earned savings as appropriate and for certain material specified items.
- Equity rate base is the average rate base for the relevant year as reported to the Group's regulators (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory capital structure.

Year ended 31 March	**Regulatory Debt:Equity assumption**	**Achieved Return on equity**		**Base or Allowed Return on Equity**	
%		**2017**	2016	**2017**	2016
UK Electricity Transmission	60/40	**13.6%**	13.9%	**10.2%**	10.2%
UK Gas Transmission	62.5/37.5	**10.8%**	12.5%	**10.0%**	10.0%
US Regulated[1]	Avg. 50/50	**8.2%**	8.0%	**9.5%**	9.7%

1. Comparative information for US Regulated segment was calculated for the 2015 calendar year.

Regulated asset base

As at 31 March	**Regulated asset value or rate base**		**Total regulated assets**	
(£bn, at constant currency)	**2017**	2016	**2017**	2016
UK Electricity Transmission	**12.5**	11.8	**12.0**	11.7
UK Gas Transmission	**5.8**	5.6	**5.7**	5.7
US Regulated	**15.4**	14.6	**17.1**	16.2
Total Group excluding UK Gas Distribution	**33.7**	32.0	**34.8**	33.6
UK Gas Distribution	**8.9**	8.7	**8.9**	8.6
Total Group	**42.6**	40.7	**43.7**	42.2

US rate base and total regulated assets for 31 March 2016 have been restated in the table above at constant currency. At actual currency the values were £12.7 billion and £14.1 billion respectively.

Invested capital at 31 March 2017 for Other activities was £2.2 billion (31 March 2016: £2.0 billion at constant currency).

Regulated asset base growth has been disclosed on page 13.

Commentary on consolidated financial statements
for the year ended 31 March 2016

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit (for the continuing group) by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2016. This should be read in conjunction with the 31 March 2017 unaudited commentary included on pages 85, 89, 97 and 98.

Analysis of the income statement for the years ended 31 March 2016 and 31 March 2015

Revenue

Revenue for the year ended 31 March 2016 decreased by £145 million to £13,212 million. This decrease was driven by lower revenues in our US Regulated business, partly offset by revenue growth across all of our other businesses, in particular UK Electricity Transmission. US Regulated revenues were £493 million lower year on year due to lower commodity costs passed on to customers and unfavourable timing of recoveries. This was partly offset by higher increased revenue allowances under the Niagara Mohawk three year rate plan and the benefits of capex trackers and the stronger US dollar. UK Electricity Transmission revenue increased by £223 million, mostly reflecting the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs.

Revenue for the year ended 31 March 2015 increased by £416 million to £13,357 million. This increase was driven by higher revenues in our UK ET business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK GT. Our US Regulated business revenues were lower, as a result of the end of the LIPA MSA in the prior year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Operating costs

Operating costs for the year ended 31 March 2016 of £9,987 million were £419 million lower than the prior year. This decrease in costs included a £94 million impact in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £325 million lower, principally due to lower pass-through costs such as gas and electric commodity costs in the US and additional costs incurred the year before in the US to improve data quality and bring regulatory filings up to date, partially offset by higher depreciation as a result of newly commissioned assets and the impact of the stronger US dollar on sterling results.

Operating costs for the year ended 31 March 2015 of £10,406 million were £358 million higher than the prior year. This increase in costs included a £199 million year on year impact of changes in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £159 million higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following the previous year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of the year.

Exceptional operating items and remeasurements

Operating costs for the year ended 31 March 2016 included an £11 million gain on remeasurement of commodity contracts.

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £66 million lower than 2013/14 at £872 million, mainly as a result of lower average gross debt through the year, lower RPI in the UK and refinancing debt at lower rates.

Exceptional finance costs for the year ended 31 March 2016 included a loss of £99 million on financial remeasurements, relating to net losses on derivative financial instruments. The year ended 31 March 2015 included exceptional debt redemption costs of £131 million and a loss of £34 million on financial remeasurements relating to net losses on derivative financial instruments. The year ended 31 March 2014 included a gain of £93 million on financial remeasurements.

Tax

The tax charge on profits before exceptional items and remeasurements for the year ended 31 March 2016 was £61 million higher than 2014/15. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year was 25.0% (2014/15: 24.6%).

The tax charge on profit before exceptional items and remeasurements for the year ended 31 March 2015 was £126 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.

Exceptional tax for 2015/16 was a credit of £177 million which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate from 20% to 18%.

Exceptional tax for 2014/15 of £76 million primarily represents tax credits on the exceptional items and remeasurements described above.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2016 were £1,812 million. For the year ended 31 March 2015, adjusted earnings were £1,675 million.

The above earnings performance translated into adjusted EPS growth in 2015/16 of 4.1 pence (9%) and 5.5 pence (14%) in 2014/15.

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated for shares issued via scrip dividends and the bonus element of the 2010 rights issue.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2016

UK Electricity Transmission

For the year ended 31 March 2016, revenue in the UK Electricity Transmission segment increased by £223 million to £3,977 million, and adjusted operating profit decreased by £64 million to £1,173 million. The revenue growth of £223 million was principally due to the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs, and under-recoveries of allowed revenues in the prior year. This was partly offset by reductions in allowed revenues in 2015/16 and a legal settlement received in 2014/15 that did not repeat in 2015/16. Net revenue (after deducting pass-through costs) was £14 million higher. Regulated controllable costs were £28 million higher due to inflation and salary growth, together with legal cost recoveries in the prior year, higher tower maintenance costs and transformation costs associated with our System Operator role. Depreciation and amortisation was £14 million higher reflecting the continued capital investment programme. Other costs were £36 million higher than prior year due to additional asset impairments this year and lower scrap and disposal proceeds.

Operating costs for the year ended 31 March 2015 included an £83 million loss (2013/14: £16 million gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £100 million gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254 million and restructuring costs of £91 million, primarily in the UK as we reorganised certain parts of our business to deliver under the new RIIO price controls, and a £79 million provision for the demolition of UK gas holders that were no longer required.

Net finance costs

For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements were £16 million lower than 2014/15 at £856 million, mainly as a result of lower UK RPI inflation, continued focus on management of cash balances and the benefit of the prior year's debt repurchases, partially offset by increased borrowings and the impact of the stronger US dollar.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £25 million in 2015/16 to £1,047 million and adjusted operating profit increased by £49 million to £486 million. Revenue was £25 million higher, principally due to over-recoveries of allowed revenues in the year. Regulated controllable costs were £10 million higher than the previous year, mainly as a result of inflation, higher gas system service charges and organisational change costs. Depreciation costs were £6 million higher due to ongoing investment. Other operating costs were £19 million lower than the previous year, mostly reflecting additional costs in 2014/15 relating to the closure of LNG facilities.

US Regulated

Revenue in our US Regulated businesses was £493 million lower at £7,493 million, while adjusted operating profit increased by £21 million to

£1,185 million. The stronger US dollar increased operating profit in the year by £81 million. Excluding the impact of foreign exchange rate movements, revenue decreased by £1,051 million, principally as a result of lower commodity costs passed on to customers and unfavourable timing of recoveries year over year, partly offset by higher revenue allowances under the Niagara Mohawk three year rate plan and the benefit of capex trackers. The reduction in revenue was mostly offset by a £1,027 million reduction in pass-through costs incurred (excluding the impact of foreign exchange). Regulated controllable costs reduced by £71 million at constant currency, partly as a result of lower gas leak and compliance work this year and additional costs incurred last year to improve data quality and bring regulatory filings up to date. Depreciation and amortisation costs were £51 million higher this year at constant currency as a result of ongoing investment in our networks. Pension costs were £15 million higher at constant currency due to changes in actuarial discount rates, while other operating costs were £41 million higher at constant currency including higher asset removal costs.

Other activities
Revenue in Other activities increased by £110 million to £824 million in the year ended 31 March 2016. Adjusted operating profit was £174 million higher at £370 million. In the US, adjusted operating profit was £143 million higher, reflecting lower spend on upgrades to our finance systems which completed last year. In addition, we benefited from a £49 million gain on disposal of our investment in the Iroquois pipeline, and the deconsolidation of our investment in Clean Line. In the UK, adjusted operating profit was £31 million higher as a result of strong auction revenues at the French interconnector and higher property sales.

Analysis of the statement of financial position for the year ended 31 March 2016

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets
Goodwill and intangibles increased by £255 million to £6,202 million as at 31 March 2016. This increase primarily relates to foreign exchange movements of £184 million and software additions of £220 million, partially offset by software amortisation of £147 million.

Property, plant and equipment
Property, plant and equipment increased by £2,641 million to £43,364 million as at 31 March 2016. This was principally due to capital expenditure of £3,673 million on the renewal and extension of our regulated networks and foreign exchange movements of £543 million, offset by depreciation of £1,467 million in the year. See page 22 for further details of our capital expenditure.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £233 million to £961 million. This is primarily due to an increase in investments in joint ventures of £79 million, together with an increase in available-for-sale investments of £152 million.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have decreased by £284 million to £2,832 million as at 31 March 2016. This is due to an increase in inventories and current intangible assets of £97 million, more than offset by a net decrease in trade and other receivables of £381 million. The £381 million decrease consists of a foreign exchange impact of £57 million due to the stronger US dollar against sterling offset by a decrease in the underlying balances of

Current tax balances
Net current tax balances have increased by £51 million to £175 million as at 31 March 2016, which includes a £77 million current tax asset (£60 million current tax asset in 2014/15 included in trade and other receivables). This is primarily due to the tax payments made in 2015/16 being only partially offset by a smaller current year tax charge.

Deferred tax balances
Deferred tax balances have increased by £337 million to £4,634 million as at 31 March 2016. This was primarily due to the impact of the £125 million deferred tax charge on actuarial gains in reserves (£299 million tax credit in 2014/15) and foreign exchange movements being offset by the impact of the reduction in the UK statutory tax rate.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £136 million to £3,790 million as at 31 March 2016.

Total provisions decreased by £16 million in the year. The underlying movements include additions of £63 million, primarily relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £33 million, together with foreign exchange movements of £42 million, offset by utilisation of £200 million in relation to all classes of provisions.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 90.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2015	(672)	(2,586)	(3,258)
Exchange movements	–	(81)	(81)
Current service cost	(74)	(147)	(221)
Net interest cost	(18)	(94)	(112)
Curtailments and other	(24)	(15)	(39)
Actuarial (losses)/gains			
– on plan assets	(18)	(320)	(338)
– on plan liabilities	552	325	877
Employer contributions	239	348	587
As at 31 March 2016	**(15)**	**(2,570)**	**(2,585)**
Represented by:			
Plan assets	19,401	7,033	26,434
Plan liabilities	(19,416)	(9,603)	(29,019)
	(15)	**(2,570)**	**(2,585)**

The principal movements in net obligations during the year include net actuarial gains of £539 million and employer contributions of £587 million. Net actuarial gains include actuarial gains on plan liabilities of £877 million arising as a consequence of decreases in the nominal discount rate in the US and experience gains reflecting liability experience throughout the year including the impact of pension increases being lower than assumed and some updates to the way a section of plan liabilities is estimated. This is partially offset by actuarial losses of £338 million arising on plan assets resulting from actual asset returns being less than assumed returns which is based upon the discount rate at the start of the year.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items

£421 million, reflecting collection of high 2015 winter billings, coupled with the impact of the recent mild winter.

Trade and other payables
Trade and other payables have decreased by £7 million to £3,285 million, primarily due to a foreign exchange impact of £48 million more than offset by movements in the US related to warmer weather and energy billing settlements.

There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 28.

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

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2017. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2013, 2014, 2015, 2016 and 2017 has been prepared under IFRS issued by the IASB and as adopted by the EU[1].

	2017	2016[1]	2015[1]	2014[1]	2013[1,2]
Summary income statement (£m)					
Continuing operations					
Revenue	**15,035**	13,212	13,357	12,941	12,673
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,773**	3,214	3,034	2,777	2,866
Exceptional items, remeasurements and stranded cost recoveries	**(565)**	11	(83)	116	141
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**2,807**	2,417	2,208	1,867	1,922
Exceptional items, remeasurements and stranded cost recoveries	**(623)**	(88)	(248)	209	209
Profit after tax from continuing operations					
Before exceptional items, remeasurements and stranded cost recoveries	**2,141**	1,813	1,665	1,450	1,452
Exceptional items, remeasurements and stranded cost recoveries	**(331)**	89	(172)	324	208
Profit after tax from discontinued operations					
Before exceptional items, remeasurements and stranded cost recoveries	**606**	576	516	553	462
Exceptional items, remeasurements and stranded cost recoveries	**57**	116	2	137	32
Gain/(loss) on disposal of UK Gas Distribution after tax	**5,321**	–	–	–	–
Total profit for the year	**7,794**	2,594	2,011	2,464	2,154
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**2,748**	2,386	2,189	2,015	1,913
Exceptional items, remeasurements and stranded cost recoveries	**(274)**	205	(170)	461	240
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	–	–
Total	**7,795**	2,591	2,019	2,476	2,153
Earnings per share					
Basic – continuing operations (pence)[3]	**48.1**	50.4	39.4	46.9	43.5
Diluted – continuing operations (pence)[3]	**47.9**	50.2	39.2	46.6	43.2
Basic – discontinued operations (pence)[3]	**159.0**	18.3	13.5	18.0	13.0
Diluted – discontinued operations (pence)[3]	**158.3**	18.2	13.5	17.9	13.0
Basic – total (pence)[3]	**207.1**	68.7	52.9	64.9	56.5
Diluted – total (pence)[3]	**206.2**	68.4	52.7	64.5	56.2
Number of shares – basic (millions)[4]	**3,763**	3,774	3,817	3,817	3,813
Number of shares – diluted (millions)[4]	**3,780**	3,790	3,834	3,836	3,832
Dividends per ordinary share					
Paid during the year (pence)	**43.51**	43.16	42.25	40.85	39.84
Approved or proposed during the year (pence)[5]	**128.65**	43.34	42.87	42.03	40.85
Paid during the year ($)	**0.555**	0.664	0.697	0.636	0.633
Approved or proposed during the year ($)	**1.642**	0.635	0.672	0.696	0.632

1. Items previously reported for 2013–2016 have been represented to reflect UK Gas Distribution being presented as a discontinued operation in the current year.
2. For the years ended 31 March 2015, 31 March 2016 and 31 March 2017, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2013 were restated to show the impact of IAS 19 (revised).
3. Items previously reported for 2013–2016 have been restated to reflect the impact of the bonus element of the rights issue and the additional shares issued as scrip dividends.
4. Number of shares previously reported for 2013–2016 have been restated to reflect the impact of the additional shares issued as scrip dividends.
5. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that will be paid on 2 June 2017.

	2017	2016	2015	2014	2013[1]
Summary statement of net assets					
Non-current assets	**52,266**	52,622	49,058	44,895	45,129
Current assets	**13,574**	6,312	6,031	7,489	9,576
Total assets	**65,840**	58,934	55,089	52,384	54,705
Current liabilities	**(10,511)**	(7,721)	(7,374)	(7,331)	(7,445)
Non-current liabilities	**(34,945)**	(37,648)	(35,741)	(33,134)	(37,026)
Total liabilities	**(45,456)**	(45,369)	(43,115)	(40,465)	(44,471)
Net assets	**20,384**	13,565	11,974	11,919	10,234
Total shareholders' equity	**20,368**	13,555	11,962	11,911	10,229

1. For the years ended 31 March 2017, 31 March 2016 and 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the year to 31 March 2013 were restated to show the impact of IAS 19 (revised).

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual asset growth
'Annual asset growth' measures the increase in 'total regulatory value and other investments' defined below.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BEIS
The Department for Business, Energy and Industrial Strategy, being the UK Government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy, which was formed in July 2016 merging the functions of the former Department of Energy and Climate Change and Department for Business, Innovation and Skills (BIS).

Board
The Board of Directors of the Company (for more information see pages 34 and 35).

bps
Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed
BritNed Development Limited.

C

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

Capital investment
'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures, other than the St William joint venture during the period. St William is excluded based on the nature of this joint venture arrangement.

carrying value
The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

the Company, the Group, National Grid, we, our or us
We use the terms 'the Company', 'the Group', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and/ or all or certain of its subsidiaries, depending on context.

Consortium
The consortium which purchased a 61% equity interest in the UK Gas Distribution business on 31 March 2017, comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

Constant currency
'Constant currency basis' refers to the reporting of the actual results against the results for the same period last year which, in respect of any US$ currency denominated activity, have been translated using the average US$ exchange rate for the year ended 31 March 2017, which was $1.28 to £1.00. The average rate for the year ended 31 March 2016, was $1.47 to £1.00. Assets and liabilities as at 31 March 2016 have been retranslated at the closing rate at 31 March 2017 of $1.25 to £1.00. The closing rate for the balance sheet date 31 March 2016 was $1.44 to £1.00.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB
Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC
Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement
Deposit Agreement means the agreement entered into between National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs, pursuant to which ADSs have been issued,

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement.

Depositary
Depositary means The Bank of New York Mellon acting as depositary.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 34 and 35 of this document.

dollars or $
Except as otherwise noted all references to dollars or $ in this Annual Report and Accounts relate to the US currency.

E

earnings per share (EPS)
Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

Electricity System Operator (ESO)
The party responsible for the long-term strategy, planning and real time operation (balancing supply and demand) of the electricity system in Great Britain.

employee engagement
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention
The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU
The European Union, being the economic and political union of 28 member states located in Europe.

Exchange Act
The US Securities Exchange Act 1934, as amended.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 166 to 171, which are prepared in accordance with FRS 101.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

Group return on equity (Group RoE)
The Group return on equity 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. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HMRC
HM Revenue & Customs. The UK tax authority.

HVDC
High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

KEDLI
KeySpan Gas East Corporation.

KEDNY
The Brooklyn Union Gas Company.

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

kW
Kilowatt, being an amount of power equal to 1,000 watts.

kWm
Kilowatt month, being an amount of energy equivalent to delivering 1kW of power for a period of one month.

L

LIPA
The Long Island Power Authority.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury (LTI)
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate (IFR)
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MADPU
The Massachusetts Department of Public Utilities.

MSA
The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.

MW
Megawatt, being an amount of power equal to 1 million watts.

N

National Grid Metering (NGM)
National Grid Metering Limited, National Grid's UK regulated metering business.

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

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NTS
The gas National Transmission System in Great Britain.

NYPSC
The New York Public Service Commission.

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB
Other post-employment benefits.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of 1117/43 pence. Subject to shareholder approval of the proposed share consolidation at the General Meeting of the Company to be held on 19 May 2017, the nominal value of National Grid's ordinary shares will be 12204/473 with effect from 22 May 2017.

P

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

return on capital employed (RoCE)
The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (RoE)
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight-year price controls which started on 1 April 2013.

RIPUC
The Rhode Island Public Utilities Commission.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions
Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF_6
Sulphur hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF_6 is used in the electrical industry as a gaseous dielectric medium for high voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF_6 is 23,900 times more potent than that of CO_2.

share premium
The difference between the amount shares are issued for and the nominal value of those shares.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM
Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary
A company or other entity that is controlled by National Grid.

swaption
A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

taxes borne
Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected
Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention
Tax Convention means the income tax convention between the US and the UK.

tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Total regulatory value and other investments
The sum of: the regulatory asset value of the UK regulated businesses determined under the methodology set out in Ofgem's Price Control Financial Model; the rate bases applicable to each US regulated entity calculated according to the methodology used by each respective utility regulator; the value of assets held by the Group's other activities; together with investments in joint ventures and associates. Other activities primarily relate to non-network businesses and other commercial operations including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; and a UK LNG import terminal.

Totex
Total expenditure, comprising capital and operating expenditure.

treasury shares
Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh
Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

Definitions and glossary of terms continued

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)
Guidance, issued by the Financial Reporting Council in September 2014 (as updated in 2016 to reflect forthcoming legislation on audit committees and auditor appointments), on how companies should be governed, applicable to UK listed companies, including National Grid.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)
UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

US
The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US regulated return on equity (US RoE)
US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric and is calculated annually. For 2016/17, it is calculated on a fiscal year basis. For 2015/16 and prior years, it is calculated on a calendar year basis.

US state regulators (state utility commissions)
In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value Added
Value Added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year plus share repurchase costs less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

Value Growth
Value Growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend plus share repurchase costs less net debt, as a percentage.

Want more information or help?

Capita Asset Services
For queries about ordinary shares:

0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344

Visit the National Grid share portal
www.nationalgridshareholders.com
Email: nationalgrid@capita.co.uk

National Grid Share
Register Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon
For queries about American Depositary Shares:

1-800-466-7215
If calling from outside the US:
+1-201-680-6825

www.mybnymdr.com
Email: shrrelations@
cpushareownerservices.com

The Bank of New York Mellon
Depository Receipts
PO Box 30170
College Station, Texas 77842-3170

Further information about National Grid including share price and interactive tools can be found on our website: www.nationalgrid.com

Beware of share fraud
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar
The following dates have been announced or are indicative:

31 May 2017	ADRs go ex-dividend for 2016/17 final dividend
1 June 2017	Ordinary shares go ex-dividend for 2016/17 final dividend
2 June 2017	Record date for 2016/17 final dividend
8 June 2017	Scrip reference price announced
19 June 2017	Scrip election date
31 July 2017	2017 AGM
16 August 2017	2016/17 final dividend paid to qualifying shareholders
9 November 2017	2017/18 half-year results
22 November 2017	ADRs go ex-dividend for 2017/18 interim dividend
23 November 2017	Ordinary shares go ex-dividend for 2017/18 interim dividend
24 November 2017	Record date for 2017/18 interim dividend
10 January 2018	2017/18 interim dividend paid to qualifying shareholders
May 2018	2017/18 preliminary results

Dividends
The Directors are recommending a final dividend of 29.10 pence per ordinary share ($1.8924 per ADS) to be paid on 16 August 2017 to shareholders on the register as at 2 June 2017. Further details in respect of dividend payments can be found on page 22. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to $0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:
- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Electronic communications
To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Registered office
National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1–3 Strand, London WC2N 5EH.

Share dealing
Capita Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or by telephone.

Internet Dealing Commission – 0.4% of the trade value (minimum £16.20, maximum £62.20) until 30 June 2017. 0.50% of the trade (minimum £19.00, maximum £76.50) after 30 June 2017.

Postal Dealing Commission – 10 pence per share (maximum £10) when selling 1–150 shares, flat fee of £15 when selling 151 shares or more. No commission will be chargeable for shareholders holding up to 50 shares until 30 June 2017.

Telephone Dealing Commission – 0.75% of the trade (minimum £24.50, maximum £114.50).

Visit www.capitadeal.com/nationalgrid or call Capita Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For

Elect to receive your dividends as additional shares:

- Join our scrip dividend scheme
- No stamp duty or commission to pay

more information visit www.sharegift.org.uk or contact Capita Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443, email isa@stocktrade.co.uk or write to Stocktrade, 7th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8EX.

Cautionary statement

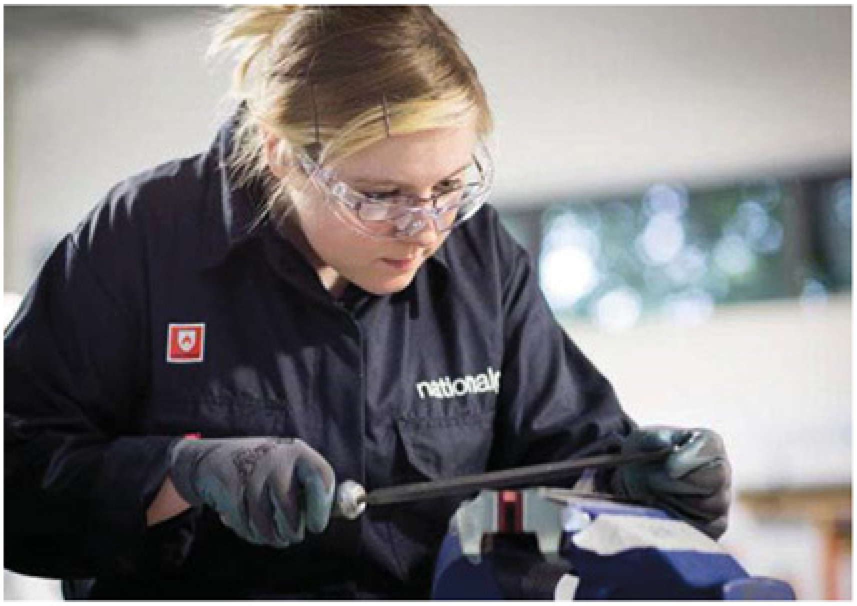
This document comprises the Annual Report and Accounts for the year ending 31 March 2017 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditors' report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 8 to 71 and 172 to 201 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the role of the electricity system operator; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes to the energy mix and the integration of distributed energy resources and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with the Company's sale of a majority interest in its UK Gas Distribution business and joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 180 to 183 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.





nationalgrid

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Further Information

Exchange Rates

The following table sets forth the history of the exchange rates of one pound sterling to US dollars for the periods indicated and as at the latest practicable date, 1 June 2017.

	High	Low
June 2017*	1.2903	1.2903
May 2017	1.3026	1.2791

* For the period to 1 June 2017.

Share ownership

At 1 June 2017, the latest practicable date, none of the directors had an individual beneficial interest amounting to greater than 1% of the Company's shares.

Material interests in shares

The following summarizes the significant changes in the percentage ownership held by our major shareholders during the past three years:

Black Rock, Inc. has held 5.21% of our outstanding share capital as at 5 June 2014, and 5 June 2015, which holdings increased to 5.88% as at 31 March 2016 and decreased to 3.92% as at 3 June 2016. As noted on page 186 of the 2016/2017 Annual Report and Accounts, we have been notified that Black Rock, Inc. held 6.01% of our outstanding share capital as at 31 March 2017, and such holdings increased as at 31 May 2017 to 6.28% which percentage remains unchanged as at 1 June 2017.

Capital Group Companies, Inc. held 11.03% of our outstanding share capital as at 31 March 2014, which holdings decreased to 4.981% as at 31 March 2015 and to 3.88% as at 31 March 2016. As noted on page 186 of the 2016/2017 Annual Report and Accounts, we have been notified that Capital Group Companies, Inc. held 3.88% of our outstanding share capital as at 31 March 2017, and such holdings remain unchanged as at 1 June 2017.

Since 31 March 2017, we have not been notified of any other subsequent significant change in the percentage of shares held by the shareholders, listed on page 186 of the 2016/2017 Annual Report and Accounts

Material interest in American Depositary Shares

As at 1 June 2017, we had 13,482 registered holders of our American Depositary Shares (ADSs) representing ownership of 10.95% of our issued and outstanding share capital, excluding ordinary shares held in treasury. As at 1 June 2017, based on information available to us, we believe that approximately 10.97% of our issued and outstanding share capital (whether in the form of shares or ADSs), excluding shares held in treasury, was held beneficially in the United States.

Price history

The following table sets forth the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary Share (Pence)		ADS ($)	
	High	Low	High	Low
June 2017*	1,069.50	1,049.50	68.35	67.90
May 2017	1,174.40	1,049.50	75.24	68.40

* For the period to 1 June 2017, the latest practicable date.

Subsequent Events

On 19 May 2017, the Company held a General Meeting to seek the shareholder approval for a proposed share consolidation, on an 11 for 12 basis, in connection with the return of cash as a result of the sale of a majority interest in our UK Gas Distribution business. This and all related resolutions were approved by shareholders at the General Meeting. The consolidation was effective on 22 May 2017. Additionally, in connection with the sale of a majority interest in our UK Gas Distribution business, a special dividend of 84.375 pence per share ($5.4224 per American Depositary Share) was paid on 2 June 2017.

Exhibits

Pursuant to the rules and regulations of the SEC, National Grid has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties to them. These representations and warranties have been made solely for the benefit of the other party or parties to such agreement and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date or dates as may be specified in such agreements.

In accordance with the instructions to Item 2(b)(i) of the Instructions to Exhibits to the Form 20-F, National Grid agrees to furnish to the SEC, upon request, a copy of any instrument relating to long-term debt that does not exceed 10 percent of the total assets of National Grid and its subsidiaries on a consolidated basis.

	Description	
1.1	Articles of Association of National Grid plc adopted by Special Resolution passed on 30 July 2012.	Incorporated by reference
2(a)	Amended and restated Deposit Agreement dated as of 23 May 2013 among National Grid plc and The Bank of New York Mellon, as Depository, and all Owners and Holders from time to time of American Depositary Shares issued thereunder. (Exhibit 1 to National Grid plc Form F-6 dated 15 May 2013 File No. 333-178045)	Incorporated by reference
2(b).1	Amended and Restated Trust Deed dated 26 July 2010 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).1 to National Grid plc Form 20-F dated 13 June 2011 File No. 1-14958)	Incorporated by reference
2(b).2	Amended and Restated Trust Deed dated 18 February 2011 among National Grid Gas plc, National Grid Gas Finance (no 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).2 to National Grid plc Form 20-F dated 13 June 2011 File No. 1-14958)	Incorporated by reference
2(b).3	Amended and Restated Trust Deed dated 22 February 2012 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).3 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
2(b).4	Amended and Restated Trust Deed dated 2 August 2011 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).5 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
2(b).5	Amended and Restated Trust Deed dated 27 March 2013 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).5 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
2(b).6	Amended and Restated Trust Deed dated 10 September 2012 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).6 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
2(b).7	Amended and Restated Trust Deed dated 12 September 2013 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).7 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).8	Amended and Restated Trust Deed dated 20 December 2013 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).8 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).9	Amended and Restated Trust Deed dated 12 September 2014 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).9 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference

2(b).10	Amended and Restated Trust Deed dated 18 December 2014 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).10 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).11	Amended and Restated Trust Deed dated 18 July 2014 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).11 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).12	Amended and Restated Trust Deed dated 14 August 2015 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c.	Incorporated by reference

	relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).12 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	
2(b).13	Amended and Restated Trust Deed dated 21 September 2015 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).13 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).14	Amended and Restated Trust Deed dated 9 December 2015 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).14 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(b).1	Acquisition Agreement between National Grid Holdings One plc and Quadgas Investments BidCo Limited and Quadgas HoldCo Limited and Quadgas PledgeCo Limited and Quadgas MidCo Limited relating to the subscription of shares in GasD HoldCo and the acquisition of GasD OpCo and GasD PropCo, dated 8 December 2016, as amended and restated on 30 March 2017. Confidential treatment has been requested. Confidential material has been redacted and separately filed with the SEC.	Filed herewith
4(b).2	Further Acquisition Agreement between National Grid Holdings One plc and Quadgas Investments Bidco Limited relating to the acquisition of shares in GasD HoldCo, dated 31 March 2017. Confidential treatment has been requested. Confidential material has been redacted and separately filed with the SEC.	Filed herewith
4(c).1	Service Agreement among The National Grid plc and Andrew Bonfield dated 1 November 2010. (Exhibit 4(c).20 to National Grid plc Form 20-F dated 13 June 2011 File No 1-14958)	Incorporated by reference
4(c).2	Service Agreement among National Grid Electricity Transmission plc and John Mark Pettigrew dated 2 November 2014. (Exhibit 4(c).5 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(c).3	Amendment to Service Agreement. (Exhibit 4(c).5 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958) among National Grid Electricity Transmission plc and John Mark Pettigrew dated 2 November 2015	Incorporated by reference
4(c).4	Service Agreement among National Grid Electricity Transmission plc and Nicola Shaw dated 23 March 2016.	Filed herewith
4(c).5	Letter of Appointment—Sir Peter Gershon. (Exhibit 4(c).10 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).6	Letter of Appointment—Paul Golby. (Exhibit 4(c).11 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).7	Letter of Appointment—Ruth Kelly. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).8	Letter of Appointment—Nora Mead Brownell. (Exhibit 4(c).13 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
4(c).9	Letter of Appointment—Mark Williamson. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
4(c).10	Letter of Appointment—Jonathan Dawson. (Exhibit 4(c).15 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference

4(c).11	Letter of Appointment—Therese Esperdy. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(c).12	Letter of Appointment—Pierre Dufour	Filed herewith
4(c).13	Employment Agreement among National Grid plc, National Grid USA and Dean Seavers dated 22 October 2014.	Incorporated by reference
4(c).14	National Grid plc Deferred Share Plan. (Exhibit 4.2 to National Grid plc S-8 dated 28	Incorporated by reference

	July 2011 File No. 333-175852)	
4(c).15	National Grid Executive Share Option Plan 2002. (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).16	National Grid Group Share Matching Plan 2002. (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).17	National Grid Transco Performance Share Plan 2002 (as approved 23 July 2002 by a resolution of the shareholders of National Grid Group plc, adopted 17 October 2002 by a resolution of the Board of National Grid Group plc, amended 26 June 2003 by the Share Schemes Sub-Committee of National Grid Transco plc, and amended 5 May 2004 by the Share Schemes Sub-Committee of National Grid Transco plc). (Exhibit 4.19 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).19	National Grid Executive Share Option Scheme. (Exhibit 4D to National Grid Group S-8 dated 26 July 2001 File No. 333-65968)	Incorporated by reference
4(c).20	Lattice Group Short Term Incentive Scheme (approved by a resolution of the shareholders of BG Group plc effective 23 October 2000; approved by a resolution of the Board of National Grid Transco plc on 30 April 2004; amended by resolutions of the Board of Lattice Group plc effective on 21 October 2002 and 13 May 2004). (Exhibit 4.23 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).21	National Grid USA Companies' Defined Contribution Supplemental Executive Retirement Plan. (Exhibit 4.2 to National Grid plc S-8 dated 23 October 2012 File No. 14958)	Incorporated by reference
8	List of subsidiaries—The list of the Company's significant subsidiaries as of 31 March 2017 is incorporated by reference to "Financial Statements—Notes to the consolidated financial statements—32. Subsidiary undertakings, joint venture and associates—Subsidiary undertakings" on pages 154-156 included in the Annual Report on Form 20-F for the financial year ended 31 March 2017. This list excludes subsidiaries that do not, in aggregate, constitute a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X as at 31 March 2017.	Incorporated by reference
12.1	Certification of John Pettigrew pursuant to Rule 13a-14(a) of the Exchange Act.	Filed herewith
12.2	Certification of Andrew Bonfield pursuant to Rule 13a-14(a) of the Exchange Act.	Filed herewith
13.1	Certifications of John Pettigrew and Andrew Bonfield furnished pursuant to Rule 13a-14(b) of the Exchange Act (such certifications are not deemed filed for purpose of Section18 of the Exchange Act and not incorporated by reference in any filing under the Securities Act).	Filed herewith
15	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm to National Grid plc.	Filed herewith

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

NATIONAL GRID PLC

By: /s/Andrew Bonfield
Andrew Bonfield
Finance Director

London, England
6 June 2017

Exhibit 4(b).1

EXECUTION VERSION

Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission

30 March 2017

NATIONAL GRID HOLDINGS ONE PLC

and

QUADGAS INVESTMENTS BIDCO LIMITED

and

QUADGAS HOLDCO LIMITED

and

QUADGAS PLEDGECO LIMITED

and

QUADGAS MIDCO LIMITED

AMENDMENT AND RESTATEMENT AGREEMENT

Relating to the Acquisition Agreement relating to the subscription of shares in GasD HoldCo and the acquisition of GasD OpCo and GasD PropCo (as defined therein)

dated 8 December 2016

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone (+44) 20 7456 2000
Facsimile (+44) 20 7456 2222

Ref L-226975

This Agreement (the "**Agreement**") is made on 30 March 2017 **between**:

(1) **NATIONAL GRID HOLDINGS ONE PLC**, a company incorporated in the United Kingdom with registered number 2367004 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom (the "**Seller**");

(2) **QUADGAS INVESTMENTS BIDCO LIMITED**, a company incorporated in the United Kingdom with registered number 10487004 and whose registered office is at 18 St Swithin's Lane, London EC4N 8AD, United Kingdom and whose former name was Tellsid Investments Limited (the "**Investor**");

(3) **QUADGAS HOLDCO LIMITED**, a company incorporated in the United Kingdom with registered number 10614254 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom ("**GasD HoldCo**");

(4) **QUADGAS PLEDGECO LIMITED**, a company incorporated in the United Kingdom with registered number 10614954 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom ("**GasD PledgeCo**"); and

(5) **QUADGAS MIDCO LIMITED**, a company incorporated in the United Kingdom with registered number 10615396 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom ("**GasD MidCo**").

Whereas:

(A) The Seller and the Investor entered into the Original Acquisition Agreement (as defined below) on 8 December 2016. GasD HoldCo, GasD PledgeCo and GasD MidCo each acceded to the Original Acquisition Agreement on 15 February 2017.

(B) The Parties now wish to amend and restate the Original Acquisition Agreement in the form of the Amended Acquisition Agreement (as defined below).

It is agreed as follows:

1 Definitions and Interpretation

In this Agreement, unless the context otherwise requires, the provisions in this Clause 1 apply:

1.1 Incorporation of defined terms

Unless otherwise stated, terms defined in the Original Acquisition Agreement shall have the same meaning in this Agreement.

1.2 Definitions

"**Amended Acquisition Agreement**" means the Original Acquisition Agreement, as amended and restated in the form set out in the Schedule to this Agreement;

"**Effective Date**" means the date of this Agreement;

"**Original Acquisition Agreement**" means the acquisition agreement relating to the subscription of shares in GasD HoldCo and the acquisition of GasD OpCo and GasD PropCo entered into by the Seller and the Investor on 8 December 2016, and acceded to by GasD HoldCo, GasD PledgeCo and GasD MidCo on 15 February 2017; and

"**Parties**" means the parties to this Agreement; and **Party**" means any one of them.

1.3 Interpretation clauses

1.3.1 The principles of interpretation set out in Clause 1 of the Original Acquisition Agreement shall have effect as if set out in this Agreement, save that references to “this Agreement” shall be construed as references to “this Agreement”.

1.3.2 References to this Agreement include its Schedule.

2 Amendment

2.1 In accordance with Clause 14.5 of the Original Acquisition Agreement, the Parties agree that the Original Acquisition Agreement shall be amended and restated in the form set out in the Schedule to this Agreement.

2.2 Each Party shall pay £1.00 to each of the other Parties on the Effective Date in consideration for the amendment and restatement of the Original Acquisition Agreement.

2.3 The amendment and restatement of the Original Acquisition Agreement shall take effect from the Effective Date.

3 Miscellaneous

3.1 Incorporation of terms

The provisions of Clauses 11, 14.1, 14.2,14.3, 14.4, 14.5, 14.7, 14.12, 14.13 and 14.15 of the Original Acquisition Agreement shall apply to this Agreement as if set out in full in this Agreement and as if references in those clauses to “this Agreement” are references to this Agreement and references to “party” or “parties” are references to parties to this Agreement.

3.2 Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. A party may enter into this Agreement by executing any such counterpart.

In witness whereof this Agreement has been duly executed on the date first stated above.

SIGNED by **NATIONAL GRID HOLDINGS ONE PLC**
acting by David Bonar
a Director

/s/ David Bonar

SIGNED by **QUADGAS INVESTMENTS BIDCO LIMITED** acting by Jaroslava Korpancova a Director	/s/ Jaroslava Korpancova
Mark Braith Waite a Director	/s/ Mark Braith Waite

SIGNED by **QUADGAS HOLDCO LIMITED** acting by David Bonar a Director	/s/ David Bonar

SIGNED by **QUADGAS PLEDGECO LIMITED** acting by David Bonar a Director	/s/ David Bonar

SIGNED by **QUADGAS MIDCO LIMITED** acting by David Bonar a Director	/s/ David Bonar

Schedule

Amended Acquisition Agreement

EXECUTION VERSION

Dated 8 December 2016
as amended and restated on March 2017

NATIONAL GRID HOLDINGS ONE PLC

and

QUADGAS INVESTMENTS BIDCO LIMITED

ACQUISITION AGREEMENT

relating to the subscription of shares in GasD HoldCo and the acquisition of GasD OpCo and GasD PropCo (as defined herein)

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone (44-20) 7456 2000
Facsimile (44-20) 7456 2222

Ref L-226975

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Acquisition Agreement

This Agreement is made on December 2016 **between:**

(1) **NATIONAL GRID HOLDINGS ONE PLC** a company incorporated in the United Kingdom with registered number 2367004 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom (the "**Seller**"); and

(2) **QUADGAS INVESTMENTS BIDCO LIMITED** a company incorporated in the United Kingdom with registered number 10487004 and whose registered office is at 18 St Swithin's Lane, London EC4N 8AD (the "**Investor**").

Whereas:

(A) On 30 September 2016:

  (i) NGG and GasD OpCo entered into the Hive Out Agreement relating to the transfer of the GasD Business to GasD OpCo; and

  (ii) GasD PropCo and National Grid Property Holdings Limited, amongst others, entered into an agreement providing for the transfer of certain properties relating to the GasD Business to GasD PropCo.

(B) On 1 October 2016, Hive Out Completion occurred and:

  (i) the GasD Business was transferred to GasD OpCo;

  (ii) all of the issued shares in GasD FinCo were transferred from NGG and NG Nominees Limited to GasD OpCo;

  (iii) GasD OpCo subscribed for 45,570 A ordinary shares in Xoserve Limited of £0.01 each; and

  (iv) NGUK and GasD OpCo entered into, amongst other documents, the Transitional Services Agreement, the Reverse Transitional Services Agreement, the Intra-Group GSA and the Reverse GSA in relation to certain services to be provided following Hive Out Completion.

(C) Pursuant to this Agreement:

  (i) on or prior to the Closing Date:

    (a) the parties have agreed to implement the Pre-Closing Financing and Implementation, including to procure that GasD OpCo draws down additional debt and repays the outstanding balance of the GasD OpCo Non-Subordinated Promissory Note and to incorporate and procure the incorporation of GasD HoldCo, GasD PledgeCo and GasD MidCo and to procure that such companies accede to this Agreement upon their incorporation; and

    (b) the Investor has agreed to subscribe for the Majority Owner Shares and the Seller has agreed to subscribe for the Minority Owner Shares on the terms and subject to the conditions of this Agreement; and

  (ii) on the Closing Date:

    (a) GasD MidCo shall acquire the GasD OpCo Shares and GasD PropCo Shares; and

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

(b) the parties shall take the further actions set out in Schedule 3 and Schedule 4.

(D) The Seller and the Investor have each agreed to enter into the Shareholders' Agreement on the Closing Date to regulate their respective rights in the GasD Group and the GasD Business following Closing.

(E) Following Closing, the parties have agreed to implement, and where relevant, procure that the GasD Group shall implement, the Post-Closing Implementation.

It is agreed as follows:

1 Interpretation

In this Agreement (the "**Agreement**"), unless the context otherwise requires, the provisions in this Clause 1 apply:

1.1 Definitions

"**Accounts**" means:

(i) in respect of GasD OpCo and GasD FinCo, the audited accounts of NGG (including the balance sheet and the notes to the accounts) as at, and for the 12 month period ended on, the Accounts Date as included in the Ansarada Data Room in folder 03.03; and

(ii) in respect of GasD PropCo, the audited accounts (including the balance sheet and the notes to the relevant accounts) of National Grid Property Holdings Ltd, National Grid Twenty Seven Ltd and Birch Sites Limited as applicable (by reference to the entity that disposed of the relevant property or asset to GasD PropCo pursuant to the GasD PropCo Transfer Agreement) as at, and for the 12 month period ended on, the Accounts Date as included in the Ansarada Data Room in folder 03.09;

"**Accounts Date**" means 31 March 2016;

"**Affiliate**" means, in relation to a party, any subsidiary undertaking of that party, any parent undertaking of that party and any subsidiary undertaking of any such parent undertaking;

"**Agreed Form**" means, in relation to any document, such document in the form agreed between the Seller and the Investor and signed for identification by the Investor's Lawyers and the Seller's Lawyers with such alterations as may be agreed in writing between the Seller and the Investor from time to time;

"**Ansarada Data Room**" means the electronic data room hosted by Ansarada containing documents and information relating to the GasD Business made available by the Seller online;

"**Base Working Capital**" means [***];

"**Business Day**" means a day which is not a Saturday, a Sunday or a public holiday in England;

"**Business Policies**" means the operational business policies and procedures of the GasD Group approved by the board of directors of the GasD Group Companies from time to time (including policies and procedures in relation to safety, anti-bribery and corruption and procurement);

"**Capex/Repex**" means the amount of fixed asset additions net of capital contributions received directly in respect of capital expenditure as accounted for within the line items designated in the column "Capex/Repex" in Part 2 of Schedule 5 of the Initial GasD Subsidiaries incurred between 1 October 2016 and the Effective Time;

"**Capex/Repex Adjustment**" means the amount at the Effective Time by which the Capex/Repex exceeds the Forecast Capex/Repex (which amount shall be added to the GasD OpCo Base Price for the purpose of Clause 3.1.3) or the amount, at the Effective Time, by which the Capex/Repex is less than the Forecast Capex/Repex (which amount shall be deducted from the GasD OpCo Base Price for the purposes of Clause 3.1.3);

"**Captive Insurance Policies**" means any and all policies issued by and/or reinsured by, or where an indemnity is provided by, the Captive Insurers;

"**Captive Insurers**" means National Grid Insurance Company (Isle of Man) Limited and/or National Grid Insurance Company (Ireland) DAC;

"**Cash Balances**" means cash in hand or credited to any account with a financial, lending or other similar institution and securities and other Cash Equivalents and the item accounted for within the line item designated in Part 2 of Schedule 5 as "Xoserve Prepayment", including all interest accrued thereon as shown by the reconciled cashbook balances of the relevant company;

"**Cash Equivalents**" means at any time:

(i) certificates of deposit maturing within one year after the relevant date of calculation and issued by an acceptable bank (being a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency);

(ii) any investment in marketable debt obligations issued or guaranteed by the government of the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;

(iii) commercial paper not convertible or exchangeable to any other security:

(a) for which a recognised trading market exists;

(b) issued by an issuer incorporated in the United States of America, the United Kingdom, any member state of the European Economic Area or any Participating Member State;

(c) which matures within one year after the relevant date of calculation; and

(d) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(iv) Sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an acceptable bank (or their dematerialised equivalent); or

(v) any investment in money market funds which (a) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited, (b) invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above and (d) that can be turned into cash on not more than 14 days' notice,

in each case, denominated in pounds Sterling and to which any member of the Initial GasD Group is beneficially entitled at that time and which is not issued or guaranteed by any member of the Initial GasD Group or subject to any Encumbrance;

"**Claim**" means a claim against the Seller under, or for breach of, this Agreement excluding: (i) any Tax Claims; (ii) any claim for breach of the Seller's Warranties, (iii) any Cornerstone Claim; or (iv) in paragraph 1.3 of Part B of Schedule 9, any claim against the Seller under, or for breach of, Clause 5.1;

"**Closing**" means the completion of the GasD OpCo Transfer and the GasD PropCo Transfer pursuant to Clause 6;

"**Closing Date**" means the date on which Closing takes place;

"**Competent Authority**" means: (i) any person (whether autonomous or not) having legal and/or regulatory authority and/or enforcement powers, including GEMA, Ofgem, HSE and the Competition and Markets Authority; (ii) any court of law or tribunal in any jurisdiction; and/or (iii) any Tax Authority;

"**Completion Accounts**" means the completion accounts to be prepared in accordance with Clause 7 and Schedule 5;

"**Compulsory Insurance**" means any:

(i) motor insurance policies required to be taken out by the GasD Group Companies under the Road Traffic Act 1998; or

(ii) employer's liability policies required to be taken out by the GasD Group Companies under the Employer's Liability (Compulsory Insurance) Act 1969,

as provided under the Captive Insurance Policies and in each case the scope (including limits of liability) under such insurance policies shall be limited to the applicable statutory minimum for the time being in all respects;

"**Confidentiality Agreements**" means each of the confidentiality agreements pursuant to which NG plc made available to the recipient named therein certain confidential information relating to the Seller's Group entered into with: (i) Macquarie Infrastructure and Real Assets (Europe) Limited dated 28 July 2016 (as amended); (ii) Dalmore Infrastructure Investments 2 Limited Partnership dated 1 August 2016 (as amended); (iii) Dalmore Infrastructure Investments 2 Limited Partnership dated 24 August 2016 (as amended); (iv) Allianz Capital Partners GmbH, London Branch dated 27 July 2016; (v) Amber Infrastructure Limited dated 25 July 2016 (as amended); (vi) CIC Capital Corporation dated 4 August 2016 (as amended); and (vii) Hermes GPE LLP dated 4 August 2016 (as amended, and "**Confidentiality Agreement**" means any one of them;

"**Cornerstone Claim**" means any claim for a breach of the Seller's obligations (i) under Clause 2, (ii) for any obligation of the Seller to pay any amounts under Clause 7.3.3 or (iii) under Clause 15;

"**CTA 2010**" has the meaning given in Schedule 11;

"**Data Room Information**" means, in respect of the Ansarada Data Room, the USB device and, in respect of the electronic electronic data room hosted by HighQ (on behalf of Addleshaw Goddard LLP), the document index each in the Agreed Form listing the documents in each of the Data Rooms as at 7 December 2016;

"**Data Rooms**" means the Ansarada Data Room and the electronic data room hosted by HighQ (on behalf of Addleshaw Goddard LLP) containing documents and information relating to the GasD Business made available by the Seller online, the contents of each of which are listed in the Data Room Information;

"**Deed of Adherence**" means the deed of adherence to this Agreement to be entered into by each of GasD HoldCo, GasD PledgeCo and GasD MidCo in accordance with Schedule 2, substantially in the form set out in Schedule 12;

"**Deferred Amount**" has the meaning given to it in Clause 7.3.3(i)(d)(I)(B);

"**Draft Completion Accounts**" has the meaning given to it in Clause 7.1;

"**Effective Time**" means immediately prior to Closing on the Closing Date;

"**EIB Novation and Consent Deed**" means the novation and amendment and restatement deed dated 30 September 2016 between European Investment Bank (as bank), NGG (as original borrower), NG plc (as guarantor) and GasD OpCo (as new borrower), relating to the £360 million agreement dated 30 June 2009 (FI No 25.029 (UK) Serapis No 20080413) between European Investment Bank and NGG, as included in the Ansarada Data Room in folder 01.01.03.05.01;

"**Employees**" means employees of the GasD Business employed by the Initial GasD Subsidiaries at the date of this Agreement;

"**Encumbrance**" means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, retention of title, right of pre-emption, right of first refusal or other third party right or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing;

"**Environmental VDD Report**" means the environmental due diligence report dated 1 October 2016 prepared by Environmental Resources Management Limited;

"**Estimated Capex/Repex**" means, the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the Capex/Repex to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Capex/Repex Adjustment**" means the amount:

(i) by which the Estimated Capex/Repex is greater than the Forecast Capex/Repex (in which case it will be added to the GasD OpCo Base Price for the purposes of Clause 6.2.1); or

(ii) by which the Estimated Capex/Repex is less than the Forecast Capex/Repex (in which case it will be deducted from the GasD OpCo Base Price for the purposes of Clause 6.2.1);

"**Estimated Cash Balances**" means the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the aggregate of the Initial GasD Subsidiaries' Cash Balances to be notified to the Investor pursuant to Clause 6.3;

"**Estimated GasD OpCo Cash Amount**" has the meaning given to it in Clause 6.2.1;

"**Estimated Intra-Group Financing Payables**" means, in respect of each Initial GasD Subsidiary, the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the Intra-Group Financing Payables to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Intra-Group Financing Receivables**" means, in respect of each Initial GasD Subsidiary, the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the Intra-Group Financing Receivables to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Stamp Duty**" means the Seller's reasonable estimate of the stamp duty and SDRT payable as a result of the GasD OpCo Transfer and the GasD PropCo Transfer in accordance with Clause 14.8 to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Third Party Indebtedness**" means the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the Third Party Indebtedness of the Initial GasD Subsidiaries to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Working Capital**" means the Seller's reasonable estimate (arrived at applying the policies and procedures set out in Part 1 of Schedule 5) of the Working Capital to be notified to the Investor pursuant to Clause 6.3;

"**Estimated Working Capital Adjustment**" means the amount:

(i) by which the Estimated Working Capital is greater (i.e. is a less negative or a positive amount) than the Base Working Capital (in which case it will be added to the GasD OpCo Base Price for the purposes of Clause 6.2.1); or

(ii) by which the Estimated Working Capital is less (i.e. is a greater negative amount) than the Base Working Capital (in which case it will be deducted from the GasD OpCo Base Price for the purposes of Clause 6.2.1);

"**Existing Budget**" means the existing budget for the GasD Business as included in the Ansarada Data Room at document 03.08.04;

"**Existing EIB Facility Agreement**" means the £360 million agreement dated 30 June 2009 (FI No 25.029 (UK) Serapis No 20080413) between European Investment Bank and NGG, as novated, amended and restated pursuant to the EIB Novation and Consent Deed (and as may be further amended and restated);

"**Existing Term and Revolving Facilities Agreement**" means the £1,700 million single currency term and revolving facilities agreement dated 14 October 2016, between GasD OpCo (as company), the bookrunners and mandated lead arrangers named in it, the lenders named in it and Mizuho Bank, Ltd (as agent);

"**Final Payment Date**" means 15 Business Days after the date on which the Completion Accounts are agreed in accordance with Clause 7 and Schedule 5;

“**Final Stamp Duty**” means the amount of the stamp duty and SDRT (and, in each case, any interest thereon or penalties in respect thereof) payable as a result of the GasD OpCo Transfer and the GasD PropCo Transfer in accordance with Clause 14.8 calculated by the Seller following determination of the Completion Accounts pursuant to Clause 7.2 and Schedule 5;

“**Financial VDD Report**” means the financial due diligence report dated 6 October 2016 prepared by PricewaterhouseCoopers LLP;

“**First Direction Letter**” has the meaning given to it in Clause 7.3.3(i)(a);

“**Fitch**” means Fitch Ratings, Inc.;

“**FMS Instruments**” means the following instruments (in respect of each of which NGG became the issuer and principal debtor on 24 November 2016): (a) £100,000,000 2.3125 per cent. Index-Linked Instruments due 2039 (ISIN: XS0294586002) (Series 56); (b) £100,000,000 2.1798 per cent. RPI-Linked Instruments due 2048 (ISIN: XS0264020347) (Series 41); and (c) £100,000,000 2.1022 per cent. RPI-Linked Instruments due 2048 (ISIN: XS0263581919) (Series 42);

“**Forecast Capex/Repex**” means the forecast amount of the Capex/Repex at Closing determined by reference to Schedule 14;

“**GasD Business**” means the business, assets and liabilities together constituting the Seller’s gas distribution business that were transferred by the Seller to GasD OpCo pursuant to the Hive Out Agreement and other documents contemplated by the Hive Out Agreement, and the properties that were transferred under the GasD PropCo Transfer Agreement;

“**GasD FinCo**” means National Grid Gas Finance plc, a company incorporated in the United Kingdom with registered number 5895068 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**GasD Group**” means GasD HoldCo and any GasD Group Companies from time to time;

“**GasD Group Companies**” means GasD HoldCo and its subsidiaries listed in Schedule 1 together with any other subsidiaries of GasD HoldCo from time to time and “**GasD Group Company**” means any one of them;

“**GasD HoldCo**” means the new holding company to be incorporated in accordance with Schedule 2 as a private limited company in the United Kingdom;

“**GasD HoldCo Articles**” means the proposed articles of incorporation for GasD HoldCo in the Agreed Form;

“**GasD HoldCo Deferred Note**” means the loan note in the Agreed Form to be issued by GasD HoldCo to the Seller in accordance with Clause 7.3.3(i)(d)(II)(B);

“**GasD HoldCo Loan**” means the loan note in the Agreed Form to be entered into on Closing between GasD HoldCo and the Seller pursuant to which the Seller shall make available an amount equal to the GasD HoldCo Loan Amount;

“**GasD HoldCo Loan Amount**” means an amount equal to £X + 1,775 million (as may be adjusted pursuant to Clause 7.3.3);

“**GasD Insurance Policies**” means the GDSP Project Insurances and any other insurance policies that may be held exclusively by and for the benefit of the GasD Group Companies;

“**GasD Licence**” means the transporter licence held by GasD OpCo in relation to the GasD Business pursuant to Section 7(2) of the Gas Act 1986;

“**GasD MidCo**” means the new company to be incorporated in accordance with Schedule 2 as a private limited company in the United Kingdom for the purposes of acquiring all of the issued share capital of GasD OpCo and GasD PropCo;

“**GasD MidCo Loan Agreement**” means the loan agreement in the Agreed Form to be entered into on Closing between GasD MidCo and GasD PledgeCo pursuant to which GasD PledgeCo shall make available an amount equal to *the sum of*:

(i) the Investor Loan Amount (as may be adjusted pursuant to Clause 7.3.3); *plus*

(ii) £X + 1,775 million;

“**GasD OpCo**” means National Grid Gas Distribution Limited, a company incorporated in the United Kingdom with registered number 10080864 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**GasD OpCo Adjustment**” means the number calculated in accordance with Clause 7.3.2;

“**GasD OpCo Adjustment Payable**” has the meaning given to it in Clause 7.3.3(i);

“**GasD OpCo Adjustment Receivable**” has the meaning given to it in Clause 7.3.3(ii);

“**GasD OpCo Base Price**” means £13,765 million;

“**GasD OpCo Cash Amount**” has the meaning given to it in Clause 3.1.3;

“**GasD OpCo Consideration**” has the meaning given to it in Clause 3.1.3;

“**GasD OpCo Non-Subordinated Promissory Note**” means the £5,765 million non-subordinated and interest bearing promissory note entered into between NGG and GasD OpCo on 1 October 2016;

“**GasD OpCo Shares**” means all of the issued ordinary shares in the capital of GasD OpCo;

“**GasD OpCo Subordinated Promissory Note**” means the subordinated promissory note in the amount of the GasD OpCo Subordinated Promissory Note Amount issued by GasD OpCo to NGG on 1 October 2016;

“**GasD OpCo Subordinated Promissory Note Amount**” means the aggregate principal amount outstanding under the GasD OpCo Subordinated Promissory Note including interest accrued but unpaid thereon to be notified to the Investor pursuant to Clause 6.3;

“**GasD OpCo Transfer**” means the transfer of the GasD OpCo Shares by the Seller to GasD MidCo and the transfer by the Seller to GasD MidCo of the GasD OpCo Subordinated Promissory Note on the Closing Date;

“**GasD PledgeCo**” means the new company to be incorporated in accordance with Schedule 2 as a private limited company in the United Kingdom for the purposes of providing share security to creditors of GasD MidCo;

“**GasD PledgeCo Loan Agreement**” means the loan agreement in the Agreed Form to be entered into on Closing between GasD PledgeCo and GasD HoldCo pursuant to which GasD HoldCo shall make available an amount equal to *the sum of*:

(i) the Investor Loan Amount (as may be adjusted pursuant to Clause 7.3.3); *plus*

(ii) £X + 1,775 million;

“**GasD PropCo**” means Gas Distribution Property Holdings Limited, a company incorporated in the United Kingdom with registered number 10080921 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**GasD PropCo Consideration**” has the meaning given to it in Clause 3.1.4;

“**GasD PropCo Promissory Notes**” means the promissory notes in an aggregate amount of the GasD PropCo Promissory Notes Amount issued by GasD PropCo on 1 October 2016;

“**GasD PropCo Promissory Notes Amount**” means the aggregate principal amount outstanding under the GasD PropCo Promissory Notes to be notified to the Investor pursuant to Clause 6.3;

“**GasD PropCo Shares**” means all of the issued ordinary shares in the capital of GasD PropCo;

“**GasD PropCo Transfer**” means the transfer of the GasD PropCo Shares and the GasD PropCo Promissory Notes by the Seller to GasD MidCo on the Closing Date;

“**GasD PropCo Transfer Agreement**” means the agreement dated 1 October 2016 between GasD PropCo, Birch Sites Limited, NG Twenty Seven Limited and National Grid Property Holdings Limited for the transfer of certain properties;

“**GDSP Project Insurances**” means those Non-Captive Insurance Policies in relation to gas distribution strategic partnership works, being:

(i) construction “all risks”;

(ii) third party liability; and

(iii) professional indemnity insurance;

“**GEMA**” means the Gas and Electricity Markets Authority;

“**Hive Out**” means the sale of the GasD Business from NGG to GasD OpCo on the terms of the Hive Out Agreement;

“**Hive Out Agreement**” means the hive out agreement dated 30 September 2016 relating to the Hive Out and entered into between NGG and GasD OpCo;

“**Hive Out Completion**” means the completion of the Hive Out on 1 October 2016 in accordance with the terms of the Hive Out Agreement;

“**HMRC**” means Her Majesty’s Revenue and Customs;

“**HSE**” means the Health and Safety Executive;

“**IFRS**” means international accounting standards, international financial reporting standards and related interpretations issued or adopted by the International Accounting Standards Board and as adopted by the European Commission in accordance with EU Regulation 1606/2002;

“**Incorporation Date**” means the date of incorporation of GasD HoldCo in accordance with Schedule 2 agreed in writing between the Investor and the Seller, which shall be no later than five Business Days prior to the expected Closing Date (as agreed between the Seller and the Investor acting in good faith);

“**Indebtedness**” means, in relation to any person, all loans or other financing liabilities, together with interest accrued but excluding trading debt or liabilities arising in the ordinary course of trading;

“**Information Memorandum**” means the document entitled “National Grid UK Gas Distribution Information Memorandum” dated July 2016;

“**Initial Amount**” has the meaning given to it in Clause 7.3.3(i)(d)(I)(A);

“**Initial Budget**” means the initial budget for the GasD Group to be prepared in accordance with Clause 5.5;

“**Initial Business Plan**” means the initial business plan for the GasD Group in the Agreed Form (which shall be the Initial Business Plan referred to in the Shareholders’ Agreement);

“**Initial Financing Plan**” means the initial financing plan for the GasD Group in the Agreed Form (which shall be the Initial Financing Plan referred to in the Shareholders’ Agreement);

“**Initial GasD Group**” means the Initial GasD Subsidiaries, taken as a whole;

“**Initial GasD Subsidiaries**” means GasD OpCo, GasD FinCo and GasD PropCo, details of which are set out in Part A of Schedule 1, and “**Initial GasD Subsidiary**” means any one of them;

“**Initial GasD Subsidiaries’ Cash Balances**” means the aggregate amount of the Cash Balances held by the Initial GasD Subsidiaries at the Effective Time, including those amounts accounted for within the line items designated in Part 2 of Schedule 5 as Initial GasD Subsidiaries’ Cash Balances;

“**Initial GasD Subsidiaries’ Promissory Notes Amount**” means the aggregate principal amounts outstanding under the GasD OpCo Subordinated Promissory Note and the GasD PropCo Promissory Notes and the GasD OpCo Non-Subordinated Promissory Notes (in each case including interest accrued thereon) in each case as at the Effective Time;

“**Insurance Indemnity Agreement**” means the indemnity agreement to be entered into between GasD OpCo and the Captive Insurers in relation to New Claims (as defined in Clause 12.2.2);

“**Interim Brand Licence**” means the interim brand licence agreement entered into between NGG and GasD OpCo and dated 30 September 2016 pursuant to which certain National Grid Trade Marks are licensed for use in relation to the business of the GasD Group for a transitional period;

“**Intra-Group Financing Payables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, dividends declared or payable but not paid) owed by an Initial GasD Subsidiary to a member of the Seller’s Group (other than an Initial GasD Subsidiary) as at the Effective Time, but excluding any item which falls to be included in calculating the Initial GasD Subsidiaries’ Cash Balances, the Initial GasD Subsidiaries’ Promissory Notes Amount or the Third Party Indebtedness;

“**Intra-Group Financing Receivables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, dividends declared or payable but not paid) owed by a member of the Seller’s Group (other than an Initial GasD Subsidiary) to an Initial GasD Subsidiary as at the Effective Time, but excluding any item which falls to be included in calculating the Initial GasD Subsidiaries’ Cash Balances or the Third Party Indebtedness;

"**Intra-Group GSA**" means the intra-group general services agreement dated 1 October 2016 and entered into between NGUK and GasD OpCo pursuant to which NGUK is providing certain services to GasD OpCo on a transitional basis;

"**Intra-Group Trading Payables**" means all outstanding or accrued liabilities or obligations in the ordinary course of business, and including VAT on such amounts, owed by an Initial GasD Subsidiary to a member of the Seller's Group (other than an Initial GasD Subsidiary) as at the Effective Time in respect of intra-group trading activity and the provision of services, facilities and benefits between them (including any amounts in respect of VAT owed by an Initial GasD Subsidiary to the representative member of the Seller VAT Group), but excluding any item which falls to be included in calculating the Intra-Group Financing Payables;

"**Intra-Group Trading Receivables**" means all outstanding liabilities or accrued obligations in the ordinary course of business, and including VAT on such amounts, owed by a member of the Seller's Group (other than an Initial GasD Subsidiary) to an Initial GasD Subsidiary as at the Effective Time in respect of intra-group trading activity and the provision of services, facilities and benefits between them (including any amounts in respect of VAT owed to an Initial GasD Subsidiary by the representative member of the Seller VAT Group), but excluding any item which falls to be included in calculating the Intra-Group Financing Receivables;

"**Investment Grade Rating**" means a preliminary rating from Standard & Poor's which is or is better than BBB-, or from such other rating agency (and rating) as the Seller and the Investor may expressly agree in writing from time to time;

"**Investor Deferred Note**" means the loan note in the Agreed Form to be issued by the Investor to GasD HoldCo in accordance with Clause 7.3.3(i)(d)(I)(B);

"**Investor Equity Amount**" means an amount equal to the sum of the Investor Subscription Amount and the Investor Loan Amount;

"**Investor Loan**" means the loan note to be entered into between the Investor and GasD HoldCo in the Agreed Form pursuant to which the Investor shall make available an amount equal to the Investor Loan Amount on the Closing Date;

"**Investor Loan Amount**" means an amount equal to £Y (as may be adjusted pursuant to Clause 7.3.3);

"**Investor Proportion**" means an amount equal to 61 per cent. of the GasD OpCo Adjustment;

"**Investor Subscription Amount**" has the meaning given to it in Clause 3.1.1;

"**Investor's Group**" means the Investor and its subsidiaries from time to time;

"**Investor's Lawyers**" means Clifford Chance LLP of 10 Upper Bank Street London, E14 5JJ;

"**Laws**" means the laws and regulations applicable to any member of the GasD Group or any Shareholder (as appropriate) including, where applicable, the rules of any stock exchange on which the securities of a Shareholder are listed or other governmental or regulatory body to which a Shareholder is subject;

"**Legal VDD Report**" means the legal due diligence report dated 1 October 2016 prepared by, amongst others, the Seller's Lawyers;

“**LIBOR**” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for pounds Sterling for the relevant period displayed on page LIBOR01 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate);

“**Long Stop Date**” means 30 June 2017;

“**Long Term Agreements**” means those agreements identified as such in schedule 2 of the Hive Out Agreement;

“**Losses**” means all losses, liabilities (including to Tax), costs (including reasonably incurred legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands, other than VAT that is recoverable;

“**Majority Owner Shares**” means 30,500 Ordinary Shares to be issued and allotted by GasD HoldCo to the Investor pursuant to this Agreement;

“**Material Contracts**” means an agreement, commitment or arrangement which is:

(i) not included in any existing budget or business plan for the Initial GasD Subsidiaries (as disclosed to the Investor) and associated with expenditure of £20 million (exclusive of VAT) or greater on an annual basis or £50 million (exclusive of VAT) or greater over the duration of the relevant arrangement in accordance with its terms;

(ii) with a member of the Seller’s Group; or

(iii) not in the ordinary course of business;

“**Mayfair Agreement**” is the deed in relation to the sectionalisation of the National Grid UK Pension Scheme dated 10 June 2016;

“**MidCo Issuer**” means the new company to be incorporated in accordance with Schedule 2 as a private limited company in the United Kingdom for the purposes of issuing notes;

“**Minority Owner Shares**” means 19,500 Ordinary Shares to be issued and allotted by GasD HoldCo to the Seller pursuant to this Agreement;

“**Moody’s**” means Moody’s Investors Service, Inc.;

“**National Grid Trade Marks**” means any and all trade marks, service marks, business, company or trade names, logos, get-up, or URLs or domain names (“**Names**”), in each case, owned or registered by any member of the Seller’s Group (including any Names that include (in whole or in part) the mark NATIONAL GRID or the NATIONAL GRID logo (as represented by EU trade mark registration no. 004533089)) and any marks which are confusingly similar to, or dilutive of, any such Names;

“**National Grid UK Pension Scheme**” means the funded defined benefit pension scheme set up under trust and currently governed by a trust deed and rules dated 6 April 2006;

“**New EIB Facility Agreement**” means the new loan agreement proposed to be entered into between GasD OpCo and the European Investment Bank in accordance with Schedule 2;

“**New GasD Subsidiaries**” means GasD HoldCo, GasD PledgeCo and GasD MidCo, details of which are set out in Part B of Schedule 1;

“**NG plc**” means National Grid plc, a company incorporated in the United Kingdom with registered number 4031152 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**NGG**” means National Grid Gas plc, a company incorporated in the United Kingdom with registered number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**NGUK**” means National Grid UK Limited, a company incorporated in the United Kingdom with registered number 4508773 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**NIC Funds**” means the approximately £3 million in the bank account of GasD OpCo in relation to Network Innovation Competition funding provided by Ofgem to the Seller;

“**Non-Captive Insurance Policies**” means those insurance policies provided by insurance companies other than the Captive Insurers;

“**Ofgem**” means the Office of Gas and Electricity Markets;

“**Ordinary Shares**” means the ordinary shares of £1.00 each to be issued in the capital of GasD HoldCo;

“**Participating Member State**” means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union;

“**parties**” means the parties to this Agreement from time to time, and “**party**” means any one of them;

“**Post-Closing Implementation**” means the actions to be taken by the Investor and the Seller following the Closing Date in accordance with the Post-Closing Implementation Steps;

“**Post-Closing Implementation Steps**” means the reorganisation steps to be taken in connection with the reorganisation of the GasD Group following Closing in accordance with steps 15 to 17 (inclusive) of the document entitled “Project Piccadilly Summarised structuring steps” in the Agreed Form;

“**Pre-Closing Financing and Implementation**” means the various actions pursuant to which: (i) prior to the Incorporation Date, GasD OpCo shall draw down additional debt to achieve the Target Debt, GasD OpCo shall repay the outstanding balance of the GasD OpCo Non-Subordinated Promissory Note; and (ii) on the Incorporation Date, the Seller and the Investor shall incorporate GasD HoldCo and subscribe for the Subscription Shares and GasD HoldCo shall create a new group held by GasD HoldCo, in each case in accordance with Schedule 2;

“**Regulatory Requirements**” means any applicable requirement of law or of any Competent Authority;

“**Relief**” has the meaning given in Schedule 11;

“**Reporting Accountants**” means a firm of chartered accountants to be agreed by the Seller and the Investor within seven days of a notice by one to the other requiring such agreement or, failing such agreement, to be nominated on the application of either of them by or on behalf of the President for the time being of the Institute of Chartered Accountants in England and Wales;

"**Reverse GSA**" means the intra-group general services agreement dated 1 October 2016 and entered into between GasD OpCo and NGUK in respect of the provision of certain services by GasD OpCo to the Seller's Group;

"**Reverse Transitional Services Agreement**" means the reverse transitional services agreement dated 1 October 2016 entered into between NGUK and GasD OpCo in respect of the provision of certain services by GasD OpCo to the Seller's Group;

"**RIIO**" means Ofgem's framework for setting price controls for network companies based on the "Revenue = Incentives + Innovation + Outputs" performance based model;

"**RIIO-GD1**" means the first gas distribution price control under the RIIO framework set by Ofgem for the eight gas distribution networks for the period from 1 April 2013 to 31 March 2021;

"**SDLT**" means Stamp Duty Land Tax;

"**SDRT**" means Stamp Duty Reserve Tax;

"**Second Direction Letter**" has the meaning given to it in Clause 7.3.3(i)(b);

"**Sectionalisation**" is the sectionalisation of the National Grid UK Pension Scheme into three sections, which is anticipated to take place on 1 January 2017, as set out in the Mayfair Agreement;

"**Seller Subscription Amount**" has the meaning given to it in Clause 3.1.2;

"**Seller VAT Group**" has the meaning given in Schedule 11;

"**Seller's Group**" means the Seller and its subsidiaries from time to time excluding, for the avoidance of doubt, the GasD Group from the Closing Date;

"**Seller's Insurance Policies**" means all insurance policies (whether under policies maintained with third party insurers or any member of the Seller's Group) including the Captive Insurance Policies and the Non-Captive Insurance Policies, other than GasD Insurance Policies, maintained by the Seller's Group under which, following Hive Out Completion, any GasD Group Company is entitled to any benefit, and "**Seller's Insurance Policy**" means any one of them;

"**Seller's Lawyers**" means Linklaters LLP of One Silk Street, London EC2Y 8HQ, United Kingdom;

"**Seller's Warranties**" means the warranties given by the Seller set out in Schedule 6, and "**Seller's Warranty**" means any one of them;

"**Senior Employee**" means any Band A or Band B Employee at the relevant time;

"**Shareholder**" means any holder of Ordinary Shares from time to time having the benefit of the Shareholders' Agreement;

"**Shareholders' Agreement**" means the shareholders' agreement in the Agreed Form to be entered into on the Closing Date between the Seller, the Investor, GasD HoldCo, GasD OpCo and certain other members of the GasD Group;

"**Standard & Poor's**" means S&P Global Ratings;

"**Subscription Shares**" means:

(i) the Minority Owner Shares; and

(ii) the Majority Owner Shares;

"**Surviving Clauses**" means Clauses 1, 4.4, 5.4.4, 5.4.5, 11 and 14.2 to 14.15, and "**Surviving Clause**" means any one of them;

"**Target Debt**" means £5,612 million of Indebtedness at GasD OpCo at the Effective Time, which shall be measured using the amortised cost basis of accounting, and, in the case of novation which took place prior to Closing, shall specifically disregard the fair value uplift recorded at the initial recognition of such liability at the time of novation;

"**Tax Authority**" means any taxing or other authority competent to impose any liability in respect of Taxation or responsible for the administration, assessment and/or collection of Taxation or enforcement of any law in relation to Taxation;

"**Tax Claim**" means a claim against the Seller under, or for breach of, the warranty in paragraph 3 of Schedule 11 or the Tax Covenant;

"**Tax Covenant**" means the covenant in respect of Taxation as set out in paragraph 2 of Schedule 11;

"**Taxation**" or "**Tax**" has the meaning given in Schedule 11;

"**Technical VDD Report**" means the technical due diligence report dated 30 September 2016 prepared by Arup Group Limited;"**Third Party Indebtedness**" means:

(i) the aggregate amount as at the close of business on the Closing Date of all outstanding Indebtedness owed by the Initial GasD Subsidiaries to any third party including those amounts accounted for within the line items designated in Part 2 of Schedule 5 as Third Party Indebtedness;

less

(ii) any Indebtedness owed by any third party to any Initial GasD Subsidiary,

and, for the purposes of this definition, third party shall exclude: (a) any Initial GasD Subsidiary; and (b) any member of the Seller's Group;

"**Transaction**" means: (i) the proposed subscription for the Subscription Shares by the Seller and the Investor; (ii) the actions to be taken in connection with the Pre-Closing Financing and Implementation; (iii) the GasD OpCo Transfer; (iv) the GasD PropCo Transfer; (v) Closing; and (vi) the Post-Closing Implementation Steps, in each case pursuant to the terms of this Agreement;

"**Transaction Documents**" means this Agreement, the Shareholders' Agreement, the Hive Out Agreement, the Long Term Agreements, the Transitional Services Agreement, the Reverse Transitional Services Agreement and all agreements entered into pursuant to the foregoing, and "**Transaction Document**" means any one of them;

"**Transitional Services Agreement**" means the transitional services agreement dated 1 October 2016 entered between NGUK and GasD OpCo in respect of the provision of certain services by the Seller's Group to the GasD Group Companies;

"**Ultimate Controller Undertaking**" means, as set out in Standard Condition 45 of the GasD Licence, a legally enforceable undertaking in favour of GasD OpCo in the form specified by GEMA, pursuant to which an ultimate controller undertakes to refrain from any action, and procures that any person which is a subsidiary of, or controlled by, the ultimate controller (other than the licensee and its subsidiaries) will refrain from any action which would be likely to cause the licensee to breach any of its obligations under the Gas Act 1986 or the GasD Licence;

"**VAT**" has the meaning given in Schedule 11;

"**VATA 1994**" has the meaning given in Schedule 11;

"**VDD Reports**" means the Financial VDD Report, the Legal VDD Report, the Technical VDD Report and the Environmental VDD Report;

"**Voting Powers of Attorney**" means the powers of attorney in the Agreed Form to be executed by the Seller in favour of GasD MidCo to enable GasD MidCo (pending registration of the relevant transfers) to exercise all voting and other rights attaching to the GasD OpCo Shares and the GasD PropCo Shares and to appoint proxies for this purpose;

"**Working Capital**" means the amount of the working capital of the Initial GasD Subsidiaries at the Effective Time as accounted for within the line items designated in Part 2 of Schedule 5 as Working Capital;

"**Working Capital Adjustment**" means the amount by which the Working Capital exceeds (i.e. is a less negative or a positive amount) the Base Working Capital (which amount shall be added to the GasD OpCo Base Price for the purpose of Clause 3.1.3) or the amount by which the Working Capital is less than (i.e. is a greater negative amount) the Base Working Capital (which amount shall be deducted from the GasD OpCo Base Price for the purposes of Clause 3.1.3);

"**X**" means:

(i) the *sum of*: (a) the Estimated GasD OpCo Cash Amount; *plus* (b) the GasD PropCo Consideration; *plus* (c) the GasD OpCo Subordinated Promissory Note Amount; *minus* (d) £1,775 million;

(ii) *multiplied by* 39 per cent.;

"**Y**" means:

(i) the *sum of*: (a) the Estimated GasD OpCo Cash Amount; *plus* (b) the GasD PropCo Consideration; *plus* (c) the GasD OpCo Subordinated Promissory Note Amount; *minus* (d) £1,775 million;

(ii) *multiplied by* 61 per cent.; and

"**Z**" means:

(i) the GasD OpCo Subordinated Promissory Note Amount; *less*

(ii) £X + 1,775 million.

1.2 Singular, plural, gender

References to one gender include all genders and references to the singular include the plural and vice versa.

1.3 References to persons and companies

References to:

1.3.1 a person include any company, partnership or unincorporated association (whether or not having separate legal personality); and

1.3.2 a company include any company, corporation or body corporate, wherever incorporated.

1.4 References to subsidiaries and holding companies

The words “holding company”, “parent undertaking”, “subsidiary” and “subsidiary undertaking” shall have the same meaning in this Agreement as their respective definitions in the Companies Act 2006.

1.5 Connected persons

A person shall be deemed to be connected with another if that person is connected with such other within the meaning of Section 1122 of CTA 2010.

1.6 Schedules etc.

References to this Agreement shall include any Recitals and Schedules to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to paragraphs and Parts are to paragraphs and Parts of the Schedules.

1.7 Headings

Headings shall be ignored in interpreting this Agreement.

1.8 Reference to documents

References to any document (including this Agreement), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

1.9 Modification etc. of statutes

References to a statute or statutory provision include that statute or provision as from time to time modified or re-enacted or consolidated whether before or after the date of this Agreement so far as such modification or re-enactment or consolidation applies or is capable of applying to any transactions entered into in accordance with this Agreement provided that nothing in this Clause 1.9 shall operate to increase the liability of any party beyond that which would have existed had this Clause been omitted.

1.10 Information

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

1.11 Legal terms

References to any English legal term shall, in respect of any jurisdiction other than England, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

1.12 Non-limiting effect of words

The words "including", "include", "in particular" and words of similar effect shall not be deemed to limit the general effect of the words that precede them.

1.13 Extent of obligation to "procure" or "ensure"

If:

1.13.1 a party (the "**Obligor**") is obliged under any provision of this Agreement to "procure" or "ensure" that another person performs (or refrains from performing) any act; and

1.13.2 the Obligor does not Control (as that term is defined in the Shareholders' Agreement) the other person,

then the Obligor's obligations under that provision shall be limited to:

1.13.3 if the Obligor holds any voting securities in the capital of the other party, exercising all voting rights attaching to those securities; and

1.13.4 if the Obligor is party to any agreement relating to the management and control of the other person (including, in the case of the GasD Group, the Shareholders' Agreement), exercising all rights available to it under such agreement,

in each case for the purposes set out in the relevant provision of this Agreement.

1.14 Payments

All payments to be made pursuant to or in connection with this Agreement shall be made in pounds Sterling, being the lawful currency of the United Kingdom, unless otherwise indicated.

2 Acquisition of the GasD Business

2.1 Agreement to subscribe for the Subscription Shares

2.1.1 On and subject to the terms of this Agreement:

(i) the Investor agrees to subscribe for the Majority Owner Shares; and

(ii) the Seller agrees to subscribe for the Minority Owner Shares,

each on the Incorporation Date.

2.1.2 The Subscription Shares shall be issued to the Investor and the Seller (as applicable) by GasD HoldCo as fully paid up and free from any Encumbrances and shall have the rights attached to them as specified in the GasD HoldCo Articles.

2.2 Agreement to the GasD OpCo Transfer and the GasD PropCo Transfer

2.2.1 On and subject to the terms of this Agreement and subject to the implementation of the Pre-Closing Financing and Implementation and the actions specified in Schedule 4:

(i) the Investor shall provide the Investor Loan to GasD HoldCo;

(ii) the Seller shall sell and GasD MidCo shall purchase at the same time:

(a) the GasD OpCo Shares; and

(b) the GasD PropCo Shares;

(iii) the Seller shall sell and GasD MidCo shall purchase the GasD OpCo Subordinated Promissory Note and the GasD PropCo Promissory Notes (each in their entirety),

in each case as at and with effect from Closing.

2.2.2 The GasD OpCo Shares and the GasD PropCo Shares shall be sold by the Seller with full title guarantee, free from Encumbrances and together with all rights and advantages attaching to them as at Closing or which may in the future attach to them.

3 Consideration

3.1 Amount

3.1.1 The consideration to be paid by the Investor for the subscription of the Majority Owner Shares in accordance with this Agreement shall be the undertaking to pay £30,500 (the "**Investor Subscription Amount**") contained in paragraph 2.1.3 of Part B of Schedule 2 and the payment of the Investor Loan.

3.1.2 The consideration to be paid by the Seller for the subscription of the Minority Owner Shares in accordance with this Agreement shall be the undertaking to pay £19,500 (the "**Seller Subscription Amount**") contained in paragraph 2.1.2 of Part B of Schedule 2.

3.1.3 The consideration to be paid by GasD MidCo for the GasD OpCo Transfer in accordance with this Agreement shall be the taking by GasD MidCo of the relevant actions set out in Schedule 4 (together, the "**GasD OpCo Consideration**"), provided that the amount to be paid by GasD MidCo to the Seller for the transfer of the GasD OpCo Shares shall be the GasD OpCo Base Price increased or reduced by:

(i) adding an amount equal to the Initial GasD Subsidiaries' Cash Balances and the Intra-Group Financing Receivables;

(ii) subtracting an amount equal to the Third Party Indebtedness, the Initial GasD Subsidiaries' Promissory Notes Amount and the Intra-Group Financing Payables;

(iii) adding or subtracting the Working Capital Adjustment; and

(iv) adding or subtracting the Capex/Repex Adjustment,

(the "**GasD OpCo Cash Amount**").

3.1.4 The consideration to be paid by GasD MidCo for the GasD PropCo Transfer in accordance with this Agreement shall be the taking by GasD MidCo of the relevant actions set out in Schedule 4 (together, the "**GasD PropCo Consideration**").

3.2 Settlement of consideration

The GasD OpCo Consideration and the GasD PropCo Consideration shall be settled by GasD MidCo to the Seller pursuant to Clauses 3.1.3, 3.1.4, 7.3 and Schedule 4.

3.3 Adjustment to GasD OpCo Cash Amount

If any payment is made by the Seller to GasD MidCo in respect of any Claim or Tax Claim (or in respect of any claim for breach of or under any agreement entered into under this Agreement), the payment shall be treated so far as lawfully possible as an adjustment of the GasD OpCo Cash Amount and the GasD OpCo Cash Amount shall be deemed to have been reduced by the amount of such payment (up to a maximum amount of the GasD OpCo Cash Amount).

4 Condition

4.1 Condition precedent

The GasD OpCo Transfer and the GasD PropCo Transfer are conditional upon satisfaction of the following condition, or its satisfaction subject only to Closing:

4.1.1 to the extent that the Transaction either constitutes (or is deemed to constitute under Article 4(5)) a concentration falling within the scope of Council Regulation (EC) 139/2004 (as amended) (the "**Regulation**") or is to be examined by the European Commission as a result of a decision under Article 22(3) of the Regulation:

(i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) or, if the Commission has initiated proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the Regulation declaring the Transaction compatible with the internal market, without imposing any conditions or obligations that are not on terms reasonably satisfactory to the parties; or

(ii) the European Commission taking a decision (or being deemed to have taken a decision) to refer the whole or part of the Transaction to the competent authorities of one or more Member States under Articles 4(4) or 9(3) of the Regulation; and

(a) each such authority taking a decision with equivalent effect to Clause 4.1.1(i) with respect to those parts of the Transaction referred to it; and

(b) the European Commission taking any of the decisions under Clause 4.1.1(i) with respect to any part of the Transaction retained by it.

4.2 Responsibility for satisfaction

4.2.1 The Seller and the Investor shall use all reasonable endeavours and take all steps necessary to ensure the satisfaction of the condition set out in Clause 4.1.1 as soon as reasonably practicable after the date of this Agreement (with the intention that Closing shall occur on or before 31 March 2017) and in any event by the end of the European Commission's initial period of review and in any event so as to enable Closing to occur before the Long Stop Date, which shall include, but not be limited to, each of the Seller and the Investor promptly providing such information in relation to itself and the Seller's Group or the Investor's Group (respectively), and any explanation or clarification of or further information in relation to any aspect of Clause 4.1.1 as may be reasonably necessary to procure the satisfaction of such condition before the Long Stop Date provided that this shall not require either party to take such action which would be likely to have such a detrimental effect on the current or future development of the business of that party that it would be unreasonable to expect that party to take it.

4.2.2 The Investor shall give notice to the Seller of the satisfaction of the condition set out in Clause 4.1.1 within two Business Days of becoming aware of the same.

4.3 Process for satisfaction

4.3.1 Without prejudice to Clause 4.2, the Seller and the Investor agree that all requests and enquiries from any government, governmental, supranational or trade agency, court or other regulatory body which relate to the satisfaction of the condition set out in Clause 4.1.1 shall be dealt with by the Seller and the Investor in consultation with each other and the Seller and the Investor shall promptly co-operate with and provide all necessary information and assistance reasonably required by such government, agency, court or body upon being requested to do so by the other.

4.3.2 The Seller and the Investor undertake to one another to:

(i) prepare and submit the notifications to the Competent Authority which are necessary to obtain the relevant clearance for the condition set out in Clause 4.1.1 as soon as reasonably practicable after the date of this Agreement and in any event, in respect of the initial draft application, within 15 Business Days of the date of this Agreement; and

(ii) keep one another fully informed as to progress towards satisfaction of the condition in Clause 4.1.1 and each of them shall provide the other or their nominated advisors with draft copies of the initial submissions and all material communications to the Competent Authority in relation to satisfying such condition, allowing the other party a reasonable opportunity to provide comments on such submissions and communications before they are submitted (other than any part of such documentation and information that contains commercially sensitive information relating to the business of the Investor’s Group or the Seller’s Group (as the case may be) and/or is otherwise confidential in the reasonable assessment of the Investor or the Seller (respectively)).

4.4 Non-satisfaction/waiver

If the condition in Clause 4.1.1 is not satisfied or waived by 5.00 p.m. on the Long Stop Date the Investor or the Seller may, in its sole discretion, terminate this Agreement (other than the Surviving Clauses) and neither the Seller nor the Investor shall have any claim against the other under it, save for any claim arising from breach of any obligation contained in Clause 4.2.

5 Pre-Closing

5.1 The Seller’s obligations in relation to the conduct of business

5.1.1 Subject to Clauses 5.1.2 and 5.2, the Seller undertakes to procure that between the date of this Agreement and Closing each Initial GasD Subsidiary shall carry on its business as a going concern in the ordinary course as carried on prior to the date of this Agreement, save in so far as agreed in writing by the Investor (such consent not to be unreasonably withheld or delayed).

5.1.2 Pending agreement on the Initial Budget, the Investor and the Seller agree that the GasD Business shall be conducted in all material respects in accordance with the Initial Business Plan, the Initial Financing Plan and the Existing Budget.

5.1.3 Without prejudice to the generality of Clauses 5.1.1 and 5.1.2 and subject to Clause 5.2, the Seller undertakes to:

(i) procure that, between the date of this Agreement and Closing, each Initial GasD Subsidiary shall not except as permitted by this Agreement or as may be required to give effect to and to comply with this Agreement without the prior written consent of the Investor (such consent not to be unreasonably withheld or delayed):

(a) enter into, terminate or materially vary any Material Contract;

(b) acquire, dispose of, or agree to acquire or dispose of, any material business asset with a fair market value of £50 million or more (exclusive of VAT);

(c) commence or settle any litigation, arbitration or other legal proceedings and/or material regulatory disputes (other than Tax disputes) where such matter is either outside the ordinary course of business or material;

(d) materially alter the terms and conditions of, or provide any new contractual benefits to any Employees or enter into new or renegotiate any existing framework agreements, recognition agreements or collective bargaining agreements with trade unions or any other body representing the Employees other than in the ordinary course as carried on prior to the date of this Agreement or as required by Laws;

(e) dismiss, save for misconduct reasons, or induce any Senior Employee to resign from their employment;

(f) make any change to its accounting practices or policies except as required by Laws;

(g) acquire or agree to acquire any share, shares or other interest in any joint venture, partnership or other incorporated or unincorporated association with another entity;

(h) dispose of, create, allot or issue, or grant an option to subscribe for, or repay, redeem or repurchase any share capital of any Initial GasD Subsidiary;

(i) incur any additional borrowings or incur any other Indebtedness in each case in excess of £50 million (excluding, for the avoidance of doubt, any borrowings or Indebtedness provided in Clause 5.2) and otherwise than in the ordinary course of business (including for working capital purposes);

(j) other than in the ordinary course of business and consistent with past practice, not do anything solely or primarily for the purposes of increasing the amount of any Cash Balances or Working Capital; and

(k) make any material variations to or terminate the Hive Out Agreement;

(ii) procure that, between the date of this Agreement and Closing, each Initial GasD Subsidiary shall, except as permitted by this Agreement or as may be required to give effect to and to comply with this Agreement or with the prior written consent of the Investor (such consent not to be unreasonably withheld or delayed):

(a) subject to Laws, the terms of the Existing Term and Revolving Facilities Agreement and having made adequate provision for the working capital requirements of the GasD Group, distribute all excess cash of the Initial GasD Group by way of, and in the following priority: (I) dividends; (II) accrued interest on the GasD OpCo Subordinated Promissory Note; and (III) partial repayment of principal on the GasD OpCo Subordinated Promissory Note, to the Seller so as to minimise (to the extent reasonably practicable) the Initial GasD Subsidiaries' Cash Balances;

(b) if any Initial GasD Group member has made a provision in its accounts in respect of a liability, or makes such a provision after the date of this Agreement, satisfy and discharge that liability to the extent such liability becomes due and payable prior to Closing; and

(c) provide such assistance as is reasonably requested by the Investor in relation to (and the Seller shall, and shall procure the other members of the GasD Group shall, do the same):

(I) the entry into the Agreed Finance Documents and/or Common Terms Documents (each as defined in the commitment letter originally dated 27 November 2016 as superseded by the commitment letter dated on or about the date of this Agreement and made between, amongst others, the Seller, the Investor and Crédit Agricole Corporate and Investment Bank as agent and security agent, the "**MidCo Commitment Letter**"); and

(II) the satisfaction of the conditions precedent to signing and funding under the Agreed Finance Documents and/or Common Terms Documents,

in each case to be undertaken in connection with the transactions contemplated by this Agreement (the "**Financing Transactions**").

The assistance to be provided by the Seller, the GasD Group (including the Initial GasD Subsidiaries) pursuant to this paragraph (c) shall include, but not be limited to:

(I) preparing, executing and delivering such agreements, accounts, certificates and other customary documentation as is required or requested in connection with the Financing Transactions;

(II) taking all corporate actions and obtaining all corporate approvals required or requested with respect to entering into the Financing Transactions; and

(III) providing such other information as is required pursuant to the Financing Transactions in order to satisfy the conditions precedent thereto,

in each case as may be reasonably requested by the Investor; and

(d) comply with its obligations with regard to Sectionalisation under the Mayfair Agreement;

(iii) together with the Investor, make the request pursuant to paragraph 7.2 or the notification pursuant to paragraph 12.3 of the MidCo Commitment Letter to ensure that the Initial Financing Plan is in place by Closing; and

(iv) notify the Investor as soon as reasonably practicable if it becomes aware that the Sectionalisation Date (as defined in the Mayfair Agreement) is likely to be delayed beyond 1 January 2017.

5.2 Exceptions to Seller's obligations in relation to the conduct of business

Clause 5.1.3 shall not operate so as to prevent or restrict:

5.2.1 any matter reasonably undertaken by any member of the Initial GasD Group in an emergency or disaster situation with the intention of minimising any adverse effect of such situation in relation to the Initial GasD Group;

5.2.2 any matter or action taken to implement the Pre-Closing Financing and Implementation as described in Schedule 2;

5.2.3 any:

(i) portion of the term loan facilities of the Existing Term and Revolving Facilities Agreement being cancelled and reduced;

(ii) draw down under the revolving loan facility of the Existing Term and Revolving Facilities Agreement of such amounts as are necessary for the working capital requirements of GasD OpCo; and

(iii) draw down of a letter of credit under the £300 million standby letter of credit facility agreement dated 14 October 2016 between GasD OpCo, the arrangers named in it, the banks named in it and Mizuho Bank, Ltd (as agent) or any provision of cash or any other collateral or any similar arrangement in respect of certain pension liabilities of GasD OpCo or the replacement of such collateral or similar arrangement with any letter of credit drawn under that standby letter of credit facility agreement,

in each case subject to and in accordance with the terms set out therein; or

5.2.4 any action required to be undertaken to comply with:

(i) applicable legal or Regulatory Requirements; and

(ii) the terms of the Transaction Documents,

5.2.5 the adoption of new articles of association for GasD OpCo in the Agreed Form, provided, in each case, that the Seller shall notify the Investor as soon as reasonably practicable of any action taken or proposed to be taken as described in this Clause 5.2, shall provide to the Investor all such information as the Investor may reasonably request and shall use reasonable endeavours to consult with the Investor in respect of any such action.

5.3 Insurance

Without prejudice to the generality of Clause 5.1.1, between the date of this Agreement and Closing, the Seller:

5.3.1 shall and/or shall procure that the relevant members of the Seller's Group shall maintain in force all GasD Insurance Policies and all Seller's Insurance Policies in accordance with their terms; and

5.3.2 shall procure that, if any member of the GasD Group becomes aware of any event, act or omission that would entitle it to make or notify a claim under any Captive Insurance Policy with a value in excess of any attachment point in such policy, such member of the Initial GasD Group shall notify such claim under any Captive Insurance Policy in respect of that event, act or omission prior to Closing.

5.4 Pre-Closing Financing and Implementation obligations

5.4.1 Prior to the Closing Date, the Seller shall procure that the Pre-Closing Financing and Implementation is implemented in accordance with Part A of Schedule 2 and that GasD OpCo shall take all such steps to duly execute all instruments, documents and agreements and do all such acts and things as may be reasonably necessary in connection therewith.

5.4.2 On the Incorporation Date, the parties shall procure that the Pre-Closing Financing and Implementation is implemented in accordance with Part B of Schedule 2 and that each member of the Seller's Group, the Investor's Group and the GasD Group shall take all such steps to duly execute all instruments, documents and agreements and do all such acts and things as may be reasonably necessary in connection therewith.

5.4.3 On the Incorporation Date, the Investor shall subscribe for the Majority Owner Shares and the Seller shall subscribe for the Minority Owner Shares in accordance with paragraphs 2.1.2 and 2.1.3 (respectively) of Part B of Schedule 2.

5.4.4 If this Agreement is terminated under Clauses 4.4 or 6.7.1, the Investor shall sell with full title guarantee and free from Encumbrances and the Seller shall purchase the Majority Owner Shares in consideration for the payment by the Seller of an amount equal to the Investor Subscription Amount.

5.4.5 Completion of the sale and purchase of the Majority Owner Shares in accordance Clause 5.4.4 shall occur on the third Business Day following the date on which the Agreement is terminated. On completion of such transfer:

(i) the Investor shall deliver to the Seller a duly executed instrument of transfer for the Majority Owner Shares and notify the Seller of the details of the bank account into which the payment of the amount referred to in Clause 5.4.4 shall be made; and

(ii) the Seller shall pay the amount referred to in Clause 5.4.4 to the Investor in cleared funds.

5.4.6 Capitalised terms used in Clauses 5.4.6 and 5.4.7 and not defined elsewhere in this Agreement shall have the meanings given to them in the financing arrangements proposed to be put in place at GasD MidCo (the "**MidCo Financing Arrangements**") at Closing. The Investor shall use reasonable endeavours to procure that the MidCo Financing Arrangements and/or GasD MidCo have an Investment Grade Rating on Closing and the Seller shall (and shall procure that each member of the GasD Group will) provide reasonable assistance to the Investor to enable the Investor to satisfy its obligations under this Clause 5.4.6. [***]

5.4.7 The Investor agrees that it shall propose, consent to and use reasonable endeavours to procure that any other party (whose consent is required) consents to, amendments to the MidCo Financing Arrangements agreed on or about the date of this Agreement which are necessary or desirable to achieve the Investment Grade Rating.

5.5 Initial Budget

Prior to the Closing Date, the Investor and the Seller shall agree the Initial Budget for the GasD Group that shall apply for the period from Closing (which shall be the Initial Budget referred to as being in Agreed Form in the Shareholders' Agreement).

6 Closing

6.1 Date and place

Subject to Clause 4, Closing shall take place at 10.00 a.m. at the offices of the Seller's Lawyers on the last Business Day of the month in which notification of the fulfilment or waiver of the condition(s) set out in Clause 4 takes place except that, where less than 16 Business Days or, in the case of a notification given in March 2017 only, 10 Business Days remain between such notification and the last Business Day of the month, Closing shall take place on the last Business Day of the following month, or at such other location, time or date as may be agreed in writing between the Investor and the Seller.

6.2 Closing events

6.2.1 On Closing, the parties shall comply with their respective obligations specified in Schedule 3 and Schedule 4, provided that the "**Estimated GasD OpCo Cash Amount**" shall be the GasD OpCo Base Price increased or reduced by:

(i) adding an amount equal to the Estimated Cash Balances and the Estimated Intra-Group Financing Receivables;

(ii) subtracting an amount equal to the Estimated Third Party Indebtedness, the Initial GasD Subsidiaries' Promissory Notes Amount and the Estimated Intra-Group Financing Payables;

(iii) adding or subtracting the Estimated Working Capital Adjustment; and

(iv) adding or subtracting the Estimated Capex/Repex Adjustment.

6.2.2 The Seller may waive some or all of the obligations of the Investor as set out in Schedule 3 and Schedule 4, the Investor may waive some or all of the obligations of the Seller as set out in Schedule 3 and Schedule 4 and the Seller and the Investor acting together may waive some or all of the obligations of the New GasD Subsidiaries as set out in Schedule 3 and Schedule 4.

6.3 Notifications to determine adjustment on Closing

Not less than fifteen Business Days prior to Closing, the Seller shall notify the Investor of, each as at the Effective Time:

6.3.1 the Estimated Cash Balances;

6.3.2 the Estimated Intra-Group Financing Receivables;

6.3.3 the Estimated Intra-Group Financing Payables;

6.3.4 the Estimated Third Party Indebtedness;

6.3.5 the Estimated Working Capital;

6.3.6 the Estimated Capex/Repex;

6.3.7 the GasD OpCo Subordinated Promissory Note Amount;

6.3.8 the GasD PropCo Promissory Notes Amount;

6.3.9 the aggregate principal amount outstanding, if any, under the GasD OpCo Non-Subordinated Promissory Note (including interest accrued but unpaid thereon); and

6.3.10 the Estimated Stamp Duty.

6.4 Repayments of Intra-Group Financing Payables and Intra-Group Financing Receivables

6.4.1 At Closing the Seller shall procure that:

(i) each relevant Initial GasD Subsidiary repays to the relevant member of the Seller's Group the amount of any Estimated Intra-Group Financing Payables and acknowledges the receipt of the Estimated Intra-Group Financing Receivables in accordance with Clause 6.4.1(ii); and

(ii) each relevant member of the Seller's Group repays to the relevant Initial GasD Subsidiary the amount of any Estimated Intra-Group Financing Receivables and acknowledges the payment of the Estimated Intra-Group Financing Payables in accordance with Clause 6.4.1(i).

6.4.2 The repayments made pursuant to Clause 6.4.1 shall be adjusted in accordance with Clause 7 when the Completion Accounts become final and binding in accordance with Clause 7.2.1.

6.5 Intra-Group Trading Payables and Intra-Group Trading Receivables

Following Closing:

6.5.1 GasD MidCo shall procure that each relevant Initial GasD Subsidiary repays to the relevant member of the Seller's Group the amount of any Intra-Group Trading Payable on the normal terms of trade for such balances; and

6.5.2 the Seller shall procure that the relevant member of the Seller's Group repays to the relevant Initial GasD Subsidiary the amount of any Intra-Group Trading Receivable on the normal terms of trade for such balances.

6.6 Termination of Intra-Group GSA and Reverse GSA

The Seller and the Investor agree and shall procure that each of the Intra-Group GSA and Reverse GSA is terminated with effect from Closing.

6.7 Breach of Closing obligations

If a party fails to comply with any material obligation in Clauses 6.2 and 6.3 and Schedule 3, the Investor, in the case of non-compliance by the Seller, or the Seller, in the case of non-compliance by the Investor, shall be entitled (without prejudice to the right to claim damages or other compensation) by written notice to the other served on the Closing Date:

6.7.1 provided that Closing has been deferred under Clause 6.7.3 by the party serving notice hereunder on not less than two occasions, to terminate this Agreement (other than the Surviving Clauses) without liability on their part;

6.7.2 to effect Closing so far as practicable having regard to the defaults which have occurred; or

6.7.3 to fix a new date for Closing (being the last Business Day of the following month) in which case the provisions of Schedule 3 shall apply to Closing as so deferred.

6.8 Estimated Stamp Duty

On Closing:

6.8.1 the Investor shall loan an amount equal to 61 per cent. of the Estimated Stamp Duty to GasD HoldCo (such loan to be on the same terms as the loan made by the Seller pursuant to Clause 6.8.2);

6.8.2 the Seller shall loan an amount equal to 39 per cent. of the Estimated Stamp Duty to GasD HoldCo (such loan to be on the same terms as the loan made by the Investor pursuant to Clause 6.8.1); and

6.8.3 the GasD PledgeCo Loan Agreement and the GasD MidCo Loan Agreement shall be increased by an amount equal to the Estimated Stamp Duty.

7 Post-Closing Adjustments

7.1 Completion Accounts

The Seller shall procure that, as soon as practicable following Closing, there shall be drawn up a draft of the Completion Accounts setting out the consolidated assets and liabilities of the Initial GasD Subsidiaries (the "**Draft Completion Accounts**") in accordance with the policies and procedures set out in, and by the delivery date specified in, Schedule 5.

7.2 Determination of Completion Accounts

7.2.1 The Draft Completion Accounts as agreed or determined pursuant to paragraph 3 of Part 1 of Schedule 5:

(i) shall constitute the Completion Accounts for the purposes of this Agreement; and

(ii) shall be final and binding on the Seller, the Investor and the GasD Group.

7.2.2 The Third Party Indebtedness, Initial GasD Subsidiaries' Cash Balances, Working Capital, Capex/Repex, Intra-Group Financing Receivables and Intra-Group Financing Payables shall be derived from the Completion Accounts.

7.3 Adjustment to consideration

7.3.1 Following determination of the Completion Accounts pursuant to Clause 7.2 and Schedule 5:

(i) **Initial GasD Subsidiaries' Cash Balances**

(a) If the Initial GasD Subsidiaries' Cash Balances are less than the Estimated Cash Balances, the difference shall be a negative number; or

(b) If the Initial GasD Subsidiaries' Cash Balances are greater than the Estimated Cash Balances, the difference shall be a positive number.

(ii) **Intra-Group Financing Receivables**

(a) If the Intra-Group Financing Receivables are less than the Estimated Intra-Group Financing Receivables, the difference shall be a negative number; or

(b) If the Intra-Group Financing Receivables are greater than the Estimated Intra-Group Financing Receivables, the difference shall be a positive number.

(iii) **Third Party Indebtedness**

(a) If the Third Party Indebtedness is greater than the Estimated Third Party Indebtedness, the difference shall be a negative number; or

(b) If the Third Party Indebtedness is less than the Estimated Third Party Indebtedness, the difference shall be a positive number.

(iv) **Intra-Group Financing Payables**

(a) If the Intra-Group Financing Payables are greater than the Estimated Intra-Group Financing Payables, the difference shall be a negative number; or

(b) If the Intra-Group Financing Payables are less than the Estimated Intra-Group Financing Payables, the difference shall be a positive number.

(v) **Working Capital**

(a) If the Working Capital is less than the Estimated Working Capital (i.e. is a more negative number), the difference shall be a negative number; or

(b) If the Working Capital is greater than the Estimated Working Capital (i.e. is a less negative or a positive number), the difference shall be a positive number.

(vi) **Capex/Repex**

(a) If the Capex/Repex is less than the Estimated Capex/Repex, the difference shall be a negative number; or

(b) If the Capex/Repex is greater than the Estimated Capex/Repex, the difference shall be a positive number.

7.3.2 The sum of the amounts calculated pursuant to Clauses 7.3.1(i)(a), 7.3.1(ii)(a), 7.3.1(iii)(a), 7.3.1(iv)(a), 7.3.1(v)(a) and 7.3.1(vi)(a) (as applicable) shall be netted off against the sum of the amounts calculated pursuant to Clauses 7.3.1(i)(b), 7.3.1(ii)(b), 7.3.1(iii)(b), 7.3.1(iv)(b), 7.3.1(v)(b) and 7.3.1(vi)(b) (as applicable) to produce a single amount comprising the GasD OpCo Adjustment which shall be payable by GasD MidCo to the Seller or vice versa as the case may be within five Business Days of such GasD OpCo Adjustment being finally ascertained pursuant to this Clause 7. To the extent possible, any amount due pursuant to this Clause 7 shall be settled in accordance with Clause 7.3.3 by way of adjustment to the Estimated GasD OpCo Cash Amount.

7.3.3 If the GasD OpCo Adjustment is:

(i) a positive number, then the GasD OpCo Cash Amount to be paid by GasD MidCo to the Seller for the transfer of the GasD OpCo Shares shall be the Estimated GasD OpCo Cash Amount increased by an amount equal to the GasD OpCo Adjustment (the "**GasD OpCo Adjustment Payable**") and such increase shall be settled in accordance with the following actions:

(a) GasD MidCo shall draw down a further amount under the GasD MidCo Loan Agreement equal to the GasD OpCo Adjustment and GasD MidCo and GasD PledgeCo shall enter into a payment direction letter (the "**First Direction Letter**") pursuant to which GasD MidCo shall direct GasD PledgeCo to pay the further amount drawn down under the GasD MidCo Loan Agreement to the Seller in satisfaction of GasD MidCo's obligation to pay the GasD OpCo Adjustment Payable to the Seller;

(b) GasD PledgeCo shall draw down a further amount under the GasD PledgeCo Loan Agreement equal to the GasD OpCo Adjustment and GasD PledgeCo and GasD HoldCo shall enter into a payment direction letter (the "**Second Direction Letter**") pursuant to which GasD PledgeCo shall direct GasD HoldCo to pay the further amount drawn down under the GasD PledgeCo Loan Agreement to the Seller in satisfaction of GasD PledgeCo's obligation to pay the GasD OpCo Adjustment to the Seller (which obligation falls to be performed by GasD PledgeCo under the First Direction Letter);

(c) if the Investor Proportion is not greater than £100 million:

(I) GasD HoldCo shall draw down in cash a further amount under the Investor Loan equal to the Investor Proportion; and

(II) in satisfaction of GasD HoldCo's obligation to pay the GasD OpCo Adjustment to the Seller (which obligation falls to be performed by GasD HoldCo under the Second Direction Letter), GasD HoldCo shall:

(A) pay an amount in cash equal to the Investor Proportion to the Seller; and

(B) draw down a further amount under the GasD HoldCo Loan equal to 39 per cent. of the GasD OpCo Adjustment and GasD HoldCo and the Seller shall enter into a payment direction letter pursuant to which GasD HoldCo shall direct the Seller to retain for its own account the further amount drawn down under the GasD HoldCo Loan; and

(d) if the Investor Proportion is greater than £100 million:

(I) GasD HoldCo shall:

(A) draw down a further amount under the Investor Loan of £100 million in cash (the "**Initial Amount**"); and

(B) draw down a further amount under the Investor Loan equal to the balance of the Investor Proportion after deduction of the Initial Amount (the "**Deferred Amount**"), such drawdown to be satisfied by the issue by the Investor of the Investor Deferred Note to GasD Holdco (a note in a principal amount equal to the Deferred Amount); and

(II) in satisfaction of GasD HoldCo's obligation to pay the GasD OpCo Adjustment to the Seller (which obligation falls to be performed by GasD HoldCo under the Second Direction Letter), GasD HoldCo shall:

(A) pay the Initial Amount to the Seller in cash;

(B) issue the GasD HoldCo Deferred Note to the Seller (a note in a principal amount equal to the Deferred Amount); and

(C) draw down a further amount under the GasD HoldCo Loan equal to 39 per cent. of the GasD OpCo Adjustment and GasD HoldCo and the Seller shall enter into a payment direction letter pursuant to which GasD HoldCo shall direct the Seller to retain for its own account the further amount drawn down under the GasD HoldCo Loan; and

(ii) a negative number, then the GasD OpCo Cash Amount to be paid by GasD MidCo to the Seller for the transfer of the GasD OpCo Shares shall be the Estimated GasD OpCo Cash Amount reduced by an amount equal to the GasD OpCo Adjustment (the "**GasD OpCo Adjustment Receivable**") and such reduction shall be settled in accordance with the following actions:

(a) GasD MidCo shall assign to GasD PledgeCo the GasD OpCo Adjustment Receivable and such assignment shall be treated as a partial repayment of the amount drawn down under the GasD MidCo Loan Agreement;

(b) GasD PledgeCo shall assign to GasD HoldCo the GasD OpCo Adjustment Receivable and such assignment shall be treated as a partial repayment of the amount drawn down under the GasD PledgeCo Loan Agreement;

(c) in satisfaction of the Seller's obligation to pay the GasD OpCo Adjustment Receivable:

(I) the Seller shall pay to GasD HoldCo an amount in cash equal to 61 per cent. of the GasD OpCo Adjustment; and

(II) the Seller shall set off an amount equal to 39 per cent. of the GasD OpCo Adjustment against the amount drawn down by GasD HoldCo under the GasD HoldCo Loan and such set-off shall be treated as a partial repayment of such amount under the GasD HoldCo Loan; and

(d) GasD HoldCo shall repay to the Investor an amount equal to 61 per cent. of the GasD OpCo Adjustment by way of repayment of the amount drawn down under the Investor Loan.

7.3.4 Following determination of the Completion Accounts pursuant to Clause 7.2 and Schedule 5, if the:

(i) Final Stamp Duty is less than the Estimated Stamp Duty:

(a) the GasD PledgeCo Loan Agreement and the GasD MidCo Loan Agreement shall be partially repaid in an amount equal to the difference.

(b) the loan made by the Seller to GasD HoldCo pursuant to Clause 6.8.2 shall be repaid by an amount equal to 39 per cent. of the difference; and

(c) the loan made by the Investor to GasD HoldCo pursuant to Clause 6.8.1 shall be repaid by an amount equal to 61 per cent. of the difference;

(ii) Final Stamp Duty is greater than the Estimated Stamp Duty:

(a) the loan made by the Investor to GasD HoldCo pursuant to Clause 6.8.1 shall be increased by an amount equal to 61 per cent. of the difference;

(b) the loan made by the Seller to GasD HoldCo pursuant to Clause 6.8.2 shall be increased by an amount equal to 39 per cent. of the difference; and

(c) the GasD PledgeCo Loan Agreement and the GasD MidCo Loan Agreement shall be increased by an amount equal to the difference.

provided that any amount due pursuant to this Clause 7.3.4 shall not be treated as an adjustment to the Estimated GasD OpCo Cash Amount.

7.4 Adjustments to repayment of Intra-Group Financing Payables and Intra-Group Financing Receivables

Following determination of the Completion Accounts pursuant to Clause 7.2 and paragraph 3 of Part 1 of Schedule 5, if the amount of any Intra-Group Financing Payable and/or any Intra-Group Financing Receivable contained in the Completion Accounts is greater or less than the amount of the corresponding Estimated Intra-Group Financing Payable or Estimated Intra-Group Financing Receivable, then the Seller and the Investor shall procure that such adjustments to the repayments pursuant to Clause 6.4 are made as are necessary to ensure that (taking into account such adjustments) the actual amount of each Intra-Group Financing Payable and each Intra-Group Financing Receivable has been repaid by each relevant Initial GasD Subsidiary to the relevant member of the Seller's Group or by the relevant member of the Seller's Group to the relevant Initial GasD Subsidiary, as the case may be.

7.5 Interest

7.5.1 Any payment to be made in accordance with Clause 7.3 shall include interest thereon calculated from the Closing Date to the date of payment at a rate per annum of 0.5 per cent. above LIBOR from time to time. Such interest shall accrue from day to day.

7.5.2 Any payment to be made in accordance with Clause 7.4 shall include interest thereon calculated from the Closing Date to the date of payment at the rate per annum applicable to the relevant Intra-Group Financing Payable or Intra-Group Financing Receivable or, where the relevant Intra-Group Financing Payable or Intra-Group Financing Receivable is non-interest bearing, at a rate per annum of 0.5 per cent. above LIBOR from time to time. Such interest shall accrue from day to day.

7.6 Date and effect of payment

7.6.1 Any payment pursuant to Clause 7.3, and any interest payable pursuant to Clause 7.5, shall be made on or before the Final Payment Date.

7.6.2 Where any payment is required to be made pursuant to Clause 7.3 or pursuant to Clause 7.5 (in relation to a payment pursuant to Clause 7.3), the payment made on account of the consideration shall be reduced or increased accordingly.

8 Post-Closing Events

8.1 Post-Closing Implementation

8.1.1 As soon as practicable following the Closing Date the parties shall procure that the Post-Closing Implementation is implemented in accordance with the Post-Closing Implementation Steps and shall take and shall procure that each member of the Seller's Group, the Investor's Group and the GasD Group shall take all such steps to duly execute all instruments, documents and agreements and do all such acts and things as may be reasonably necessary in connection therewith.

8.1.2 The Seller shall not make any changes to the Post-Closing Implementation Steps without first obtaining the prior written consent of the Investor.

8.2 Ultimate Controller Undertaking

The Investor shall and undertakes to procure that any of its associated companies and/or persons who qualify as an ultimate controller pursuant to the GasD Licence with respect to GasD OpCo shall, provide GasD OpCo with an Ultimate Controller Undertaking immediately after Closing.

8.3 Change of company names

As soon as practicable following the Closing Date, and in any event no later than the date falling 20 Business Days following the Closing Date, the parties shall procure that the name of each member of the GasD Group incorporating any National Grid Trade Mark shall be changed to a name which does not consist of, or otherwise incorporate, any National Grid Trade Mark.

8.4 Use of the National Grid Trade Marks

The provisions set out in Schedule 13 shall apply to the use of the National Grid Trade Marks with effect from Closing.

9 Warranties

9.1 The Seller's Warranties

9.1.1 The Seller warrants to the Investor that the statements set out in Schedule 6 are true and accurate as of the date of this Agreement.

9.1.2 The Investor acknowledges and agrees that the Seller does not give or make any warranty or representation as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of opinion provided to the Investor or any of its respective directors, officers, employees, agents or advisers on or prior to the date of this Agreement, including in the VDD Reports, the Information Memorandum and the documents provided in the Data Rooms.

9.2 The Investor's warranties

The Investor warrants to the Seller that the statements set out in Schedule 7 are true and accurate as of the date of this Agreement.

9.3 The New GasD Subsidiaries' warranties

The New GasD Subsidiaries warrant to the Seller and the Investor that the statements set out in Schedule 8 are true and accurate as of the date of the respective Deed of Adherence.

10 Tax Covenant

The provisions of Schedule 11 shall have effect from Closing.

11 Confidentiality

11.1 Announcements

For 12 months following the date of this Agreement, no announcement, communication or circular in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of the Seller's Group or any member of the Investor's Group or any GasD Group Company without the prior written approval of the Seller and the Investor. This shall not affect any announcement, communication, or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of either party or its holding company are listed, but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other party (or shall procure that its holding company consults with the other party) insofar as is reasonably practicable before complying with such an obligation.

11.2 Confidentiality

11.2.1 Subject to Clauses 11.1 and 11.2.2, each of the Seller, each New GasD Subsidiary and the Investor shall treat as strictly confidential and not disclose or use any confidential information received or obtained as a result of entering into this Agreement (or any agreement entered into pursuant to this Agreement) which relates to:

(i) the existence and the provisions of this Agreement and of any agreement entered into pursuant to this Agreement;

(ii) the negotiations relating to this Agreement (and any such other agreements);

(iii) (in the case of the Seller and the New GasD Subsidiaries) any information relating to the business, financial or other affairs (including future plans and targets) of the Investor's Group (but excluding the GasD Group); or

(iv) (in the case of the Investor and the New GasD Subsidiaries) any information relating to the business, financial or other affairs (including future plans and targets) of the Seller's Group as constituted after Closing.

11.2.2 Clause 11.2.1 shall not prohibit disclosure or use of any information if and to the extent:

(i) the disclosure or use is required by the Laws, any governmental or regulatory body or any stock exchange on which the shares of a party or its holding company are listed (including where this is required as part of any actual or potential offering, placing and/or sale of securities of any member of the Seller's Group or the Investor's Group);

(ii) the disclosure or use is required to vest the full benefit of this Agreement in the Seller or the Investor;

(iii) the disclosure or use is required for the purpose of any judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement or in order to enable a determination to be made by the Reporting Accountants under this Agreement;

(iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party or any other entity with which it is grouped for Tax purposes;

(v) the disclosure is made to a party to whom assignment is permitted under Clause 14.3.2 on terms that such assignee undertakes to comply with the provisions of Clause 11.2.1 in respect of such information as if it were a party to the Agreement;

(vi) the disclosure is made to professional advisers of either party on terms that such professional advisers undertake to comply with the provisions of Clause 11.2.1 in respect of such information as if they were a party to this Agreement;

(vii) the information is or becomes publicly available (other than by breach of a Confidentiality Agreement or of this Agreement);

(viii) the other party has given prior written approval to the disclosure or use;

(ix) permitted by the Shareholders' Agreement; or

(x) the information is independently developed after Closing,

provided that prior to disclosure or use of any information pursuant to Clause 11.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, consult with the other party insofar as is reasonably practicable before making such disclosure or use.

11.2.3 Each of the Seller, each New GasD Subsidiary and the Investor acknowledge and agree that any and all information relating to: (i) the GasD Business and the customers, assets or affairs of the GasD Group; and (ii) the business transactions and/or financial arrangements of the GasD Group (whether relating to the period to or following Closing) shall be kept confidential in accordance with clause 27 of the Shareholders' Agreement as if that clause was effective on and from the date of this Agreement.

12 Insurance

12.1 Obligations from Closing

The parties shall ensure that prudent and adequate insurances are put in place for the GasD Group with effect from the Closing Date. The parties shall procure that such insurance is purchased from insurers who hold a financial rating of at least A- from Standard & Poor's or an equivalent rating from an equivalent rating agency.

12.2 Captive Insurance Policies

12.2.1 Subject to Clause 12.2.2, following Closing, no GasD Group Company shall make or shall be entitled to make or notify a claim under any Captive Insurance Policy in respect of any event, act or omission that is not (or has not been) notified in accordance with the terms of such policy prior to Closing and the parties acknowledge that any underlying liability in respect of which a GasD Group Company might (but for the operation of this clause) be entitled to make or notify a claim under any Captive Insurance Policy falls within the definition of "Assumed Liabilities" under the Hive Out Agreement.

12.2.2 A claim may be made or notified after 00.00.01 on 31 March 2017 by a GasD Group Company under the Compulsory Insurance with respect to any event, act or omission relating to the GasD Business that occurred between 1 April 1987 and prior to 00.00.01 on the Closing Date (a "**New Claim**"), provided that the relevant GasD Group Company shall not be entitled to make or notify any such New Claim if and to the extent that such New Claim is covered by another insurance policy (or equivalent) held by a GasD Group Company.

12.2.3 The parties shall procure that each GasD Group Company shall notify any New Claim to the Captive Insurers as soon as reasonably practicable after becoming aware of the New Claim.

12.2.4 The parties shall procure that GasD OpCo and the Captive Insurers enter into the Insurance Indemnity Agreement on, or as soon as possible after, Closing.

12.3 Non-Captive Insurance Policies

Following Closing, and as soon as reasonably practicable following receipt of a written request by GasD OpCo, the Seller shall use reasonable endeavours to transfer to GasD OpCo the benefit of the Non-Captive Insurance Policies that are applicable to the GasD Business and which are held directly or indirectly by the Seller.

12.4 Subsequent Employer

In the event that any Employee ceases to be an employee of a member of the GasD Group but immediately thereafter becomes an employee of another member of the GasD Group or the Investor's Group, including any entity or fund controlled by or controlling the Investor or a member of the Investor's Group (the "**Subsequent Employer**"), the Investor shall procure that the Subsequent Employer does not seek an indemnity under any Captive Insurance Policy.

12.5 Existing claims under Seller's Insurance Policies

12.5.1 Without prejudice to the Hive Out Agreement, to the extent any claim relating to the Business or an Employee Claim (both terms as defined in the Hive Out Agreement) is validly notified before Closing by or on behalf of any GasD Group Company under any Seller's Insurance Policy, such claim shall be transferred to GasD OpCo and the Seller shall, and/or shall procure that the relevant member of the Seller's Group shall, perform and execute such documents as are necessary to enable such claim to be continued or enforced by GasD OpCo to the extent possible, and following such transfer, the Seller shall cease to take any action in respect of such claims.

12.5.2 To the extent that any claim is (or has been) notified in accordance with the terms of such policy before Closing and cannot be transferred to GasD OpCo in accordance with Clause 12.5.1, to the extent that:

(i) the GasD Group has not been indemnified prior to Closing in respect of the Losses in respect of which the claim was made; and

(ii) the Losses in respect of which the claim was made have not been taken into account in: (i) the Accounts; or (ii) the Completion Accounts and reduced the Working Capital accordingly,

the Seller shall use reasonable endeavours after Closing to recover all monies due from the insurers and shall pay any monies received (after taking into account any uninsured costs and deductibles under the Seller's Insurance Policies and less any Taxation suffered on the proceeds and any reasonable out of pocket expenses suffered or incurred by the Seller or any member of the Seller's Group in connection with the claim) to GasD MidCo or, at GasD MidCo's written direction, the relevant GasD Group Company as soon as practicable after receipt.

13 Employee Incentives

13.1.1 The Seller shall be liable to pay to GasD MidCo on the due date for payment any employer's social security contributions and to account (in the case of amounts payable by Xoserve Limited, provided that the Seller has been appointed as Xoserve Limited's agent pursuant to Clause 13.1.3) for any employees' social security contributions and income tax due under pay as you earn or any other equivalent withholding system payable by an Initial GasD Subsidiary or Xoserve Limited arising after Closing in respect of any share incentive, share option or other incentive plan granted before Closing to the Employees or employees of Xoserve Limited (a "**Pre-Closing Award**").

13.1.2 The parties shall procure that if any Initial GasD Subsidiary becomes aware after Closing of any matter which could give rise to a liability under Clause 13.1.1 it shall give notice of that matter to the Seller as soon as reasonably practicable and provide it with all information reasonably required relating to the calculation of amounts payable under Clause 13.1.1 within 10 Business Days of the liability arising or, if sooner, five Business Days before the date the liability is payable by the relevant Initial GasD Subsidiary or Xoserve Limited.

13.1.3 The parties shall procure that each Initial GasD Subsidiary appoints and shall use reasonable endeavours to procure that Xoserve Limited appoints the Seller as its agent to collect an amount equal to any employees' social security contributions and income tax liability arising in respect of any Pre-Closing Awards.

13.1.4 The due date for payment under Clause 13.1.1 shall be 10 Business Days before the latest date on which the social security contributions or income tax may be paid to any Tax Authority without a liability to interest and penalties arising or, if payment has already been made, five Business Days after service by GasD MidCo of a notice containing a written demand.

13.1.5 Any payment made under Clause 13.1.1 shall be treated so far as lawfully possible as an adjustment of the GasD OpCo Cash Amount and the GasD OpCo Cash Amount shall be deemed to have been reduced by the amount of such payment.

13.1.6 For the avoidance of doubt, the parties' rights and obligations in relation to Reliefs obtained in respect of Pre-Closing Awards are set out in paragraph 6 of Schedule 11.

14 Other Provisions

14.1 Further assurances

Each of the parties shall, and shall use reasonable endeavours to procure that any necessary third party shall, from time to time execute such documents and perform such acts and things as either of them may reasonably require to give the other the full benefit of this Agreement.

14.2 Whole agreement

14.2.1 This Agreement and the Shareholders' Agreement contain the whole agreement between the parties relating to the subject matter of this Agreement to the exclusion of any terms implied by law which may be excluded by contract and supersede any previous written or oral agreement between the Seller, the Investor and the New GasD Subsidiaries in relation to the Transaction.

14.2.2 Each party agrees and acknowledges that, in entering into this Agreement and the Shareholders' Agreement, it is not relying on any representation, warranty or undertaking not expressly incorporated into them.

14.2.3 Each party agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement and the Shareholders' Agreement shall be for breach of the terms of this Agreement and the Shareholders' Agreement and each of the Seller, the Investor and the New GasD Subsidiaries waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

14.2.4 No party shall be entitled to rescind or terminate this Agreement (whether before or after Closing) for breach of any representation, warranty or undertaking set out in this Agreement, other than pursuant to any such rights which arise in respect of fraud.

14.2.5 Nothing in this Clause 14.2 excludes or limits any liability for fraud.

14.3 Assignment

14.3.1 Except as permitted by Clause 14.3.2 or Clause 14.3.3, no party may without the prior written consent of the other party assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Agreement.

14.3.2 The Seller may without the consent of the Investor assign to a member of the Seller's Group the benefit of the whole or any part of this Agreement provided that:

(i) if the assignee ceases to be a member of the Seller's Group, it shall, before ceasing to be so, assign the benefit so far as assigned to it back to that party or assign the benefit to another member of the Seller's Group, as the case may be; and

(ii) the assignee shall not be entitled to receive under this Agreement any greater amount than that to which the Seller would have been entitled.

14.3.3 The Investor and any member of the GasD Group that becomes a party to this Agreement may at any time assign by way of security or grant any charge or other security interest over, all or any part of the benefit of, or its rights or benefits under, this Agreement or any other Transaction Document to any person who has agreed at any time to provide finance to the Investor or any other member of the GasD Group and/or to any agent or trustee of such person, provided that, where the Investor or any member of the GasD Group assigns the benefit of, or grants any charge or other security interest over, this Agreement and/or any other Transaction Document in whole or in part to any other person, the liabilities of the Seller under this Agreement, or under any other Transaction Document so assigned, to the Investor or the relevant member of the GasD Group and the assignee(s) (taken together) shall be no greater than such liabilities would have been had the assignment not occurred.

14.4 Third party rights

Save for those persons who are expressed to have the benefit of Clauses 15.1 and 15.3, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of, or enjoy any benefit under, this Agreement.

14.5 Variation

No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.

14.6 Method of payment and set off

14.6.1 Subject to Clause 3.1, any payments pursuant to this Agreement shall be made in full, without any set off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed).

14.6.2 Any payments pursuant to this Agreement shall be effected by crediting for same day value the account specified by the Seller or the Investor or the New GasD Subsidiary (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.

14.6.3 Payment of a sum in accordance with this Clause 14.6 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

14.7 Costs

14.7.1 The Seller shall bear all costs incurred by it and the Seller's Group in connection with the preparation, negotiation and entry into of this Agreement, the subscription of the Minority Owner Shares, the GasD OpCo Transfer and the GasD PropCo Transfer.

14.7.2 The Investor shall bear all such costs incurred by it in connection with the preparation, negotiation and entry into of this Agreement, the subscription of the Majority Owner Shares and the making of the Investor Loan.

14.8 Stamp Duty and Transfer Taxes

GasD MidCo shall bear the cost of all stamp duty, SDRT and all registration and transfer taxes and duties (but not SDLT) or their equivalents in all jurisdictions where such fees, taxes and duties (and, in each case, any interest thereon or penalty in respect thereof) are payable as a result of the GasD OpCo Transfer and the GasD PropCo Transfer (save to the extent that such stamp duty, SDRT or other registration or transfer taxes or duties arise as a result of any Initial GasD Subsidiary ceasing to be a member of a group or consortium or other association for Taxation purposes with the Seller as a result of the transactions contemplated by this Agreement). GasD MidCo shall be responsible for arranging the payment of such stamp duty, SDRT and all other such fees, taxes and duties, including fulfilling any administrative or reporting obligation imposed by the jurisdiction in question in connection with such payment. GasD MidCo shall indemnify the Seller or any other member of the Seller's Group against any Losses suffered by the Seller or member of the Seller's Group as a result of GasD MidCo failing to comply with its obligations under this Clause 14.8.

14.9 Interest

If a party defaults in the payment when due of any sum payable under this Agreement (other than Clause 7), its liability shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (after as well as before judgment) at a rate per annum of 2 per cent. above LIBOR. Such interest shall accrue from day to day.

14.10 VAT

14.10.1 Where under the terms of this Agreement one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or the representative member of any VAT group of which it forms part, subject to that person or representative member using reasonable endeavours to recover such amount of VAT as may be practicable.

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

14.10.2 If any payment under this Agreement constitutes the consideration for a taxable supply for VAT purposes, then: (i) the supplier shall provide to the payer a valid VAT invoice; and (ii) except where the reverse charge procedure applies, and subject to the provision of a valid VAT invoice in accordance with (i), in addition to that payment the payer shall pay any VAT due.

14.10.3 As soon as reasonably practicable after the date of this Agreement, the Seller shall procure that (if one has not already been made) an application shall be made to HMRC pursuant to Section 43B VATA 1994 for the exclusion of GasD FinCo from the bodies treated as members of the Seller VAT Group and for such exclusion to take effect on Closing or, if HMRC do not permit this, at the earliest date following Closing permitted by Section 43B VATA 1994.

14.10.4 Pending the taking effect of such application and for so long thereafter as may be necessary, each of the Seller and GasD MidCo shall procure that such information is provided to the other as may be required to enable the continuing representative member of the Seller VAT Group to make all the returns required of it in respect of the Seller VAT Group.

14.11 Payments of Received Amount

Where the Seller or GasD MidCo receives a payment under this Agreement (the "**Received Amount**") that pursuant to this Agreement or the Laws it is required to pass on to another member of the Seller's Group or the GasD Group respectively, it shall procure that the benefit of the Received Amount is passed on to that other person.

14.12 Notices

14.12.1 Any notice or other communication in connection with this Agreement (each, a "**Notice**") shall be:

(i) in writing; and

(ii) delivered by hand, email, recorded or special delivery or courier.

14.12.2 A Notice to the Seller shall be sent to the following address, or such other person or address as the Seller may notify to the Investor from time to time:

NATIONAL GRID HOLDINGS ONE PLC

Registered office of National Grid Holdings One plc from time to time

Email: [***]

Attention: Group General Counsel and Company Secretary

With a copy by email to:

Email: [***]

14.12.3 A Notice to the Investor shall be sent to the following address, or such other person or address as the Investor may notify to the Seller from time to time:

QUADGAS INVESTMENTS BIDCO LIMITED

18 St Swithin's Lane London EC4N 8AD

Attention: The Directors

With a copy by email to:

Email: [***]

14.12.4 A Notice shall be effective upon receipt and shall be deemed to have been received:

(i) at 9.00 a.m. on the second Business Day following the date of posting, in the case of recorded delivery;

(ii) at the time of delivery, if delivered by hand or courier; or

(iii) at the time of sending, if sent by email, provided that receipt shall not occur if the sender receives an automated message indicating that the email has not been delivered to the recipient.

14.13 Invalidity

14.13.1 If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.

14.13.2 To the extent it is not possible to delete or modify the provision, in whole or in part, under Clause 14.13.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the legality, validity and enforceability of the remainder of this Agreement shall, subject to any deletion or modification made under Clause 14.13.1, not be affected.

14.14 Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. The parties may enter into this Agreement by executing any such counterpart.

14.15 Governing law and submission to jurisdiction

14.15.1 This Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Agreement and such documents shall be governed by English law.

14.15.2 Each of the Seller and the Investor irrevocably agrees that the courts of England are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the documents to be entered into pursuant to it and that accordingly any proceedings arising out of or in connection with this Agreement and the documents to be entered into pursuant to it shall be brought in such courts. Each of the Seller and the Investor irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

14.16 Compliance with anti-bribery and anti-corruption laws

14.16.1 Each party hereby warrants, represents and undertakes to each other party hereto that, in relation to the negotiation, conclusion and performance of this Agreement:

(i) neither it nor any of its Affiliates, or any of its or their respective directors, officers, employees and authorized agents, has conducted any act in violation of applicable anti-bribery laws; and

(ii) it shall promptly notify each other party if it becomes aware of or has specific suspicions that any corruption or bribery occurred.

15 Hive Out Agreement

15.1 Excluded Liabilities

The Seller undertakes (for the benefit of the Investor and each member of the GasD Group) to procure that the definition of "Excluded Liabilities" in the Hive Out Agreement shall be construed and applied by NGG, in its capacity as "the Seller" under the Hive Out Agreement, such that the expression "by the Seller" shall be replaced where it appears in sub-paragraphs (ii) and (iii) of that definition with the expression "by the Seller or any relevant member of the NG plc Group".

15.2 NIC Funds

The Seller acknowledges that the NIC Funds transferred pursuant to the Hive Out Agreement formed part of the GasD Business and are not a "Purchaser Wrong Pocket Item" for the purposes of clause 7.4 of the Hive Out Agreement. The Seller shall procure that NGG or any member of the Seller's Group shall not bring any claim against any member of the GasD Group alleging that the NIC Funds should have been treated as an "Excluded Asset" for the purposes of the Hive Out Agreement meaning they should not have been transferred with the GasD Business.

15.3 Captive Insurance Policies

The Seller undertakes (for the benefit of the GasD Group Companies) to procure that paragraph 5 of schedule 14 of the Hive Out Agreement shall be construed and applied by NGG, such that it shall be deemed to be replaced with Clause 12.2 of this Agreement.

In witness whereof this Agreement has been duly executed.

SIGNED by
on behalf of **NATIONAL GRID HOLDINGS ONE PLC**:

SIGNED by
on behalf of **QUADGAS INVESTMENTS BIDCO LIMITED**:

Schedule 1
GasD Group Companies

Part A: The Initial GasD Subsidiaries

1 Particulars of GasD OpCo

Name of subsidiary:	National Grid Gas Distribution Limited
Registered number:	10080864
Registered office:	1-3 Strand, London WC2N 5EH, United Kingdom
Date and place of incorporation:	23 March 2016, United Kingdom
Issued share capital:	50,457 ordinary shares of £1.00
Registered shareholders and shares held:	The Seller: 50,457 ordinary shares of £1.00
Directors:	Andrew Agg Catherine Bell Clive Elphick Malcom Cooper Nicola Shaw Christopher Train
Secretaries:	Mark Cooper, Rachael Davidson and Alice Morgan
Accounting reference date:	31 March

2 Particulars of GasD FinCo

Name of subsidiary:	National Grid Gas Finance plc
Registered number:	5895068
Registered office:	1-3 Strand, London WC2N 5EH, United Kingdom
Date and place of incorporation:	3 August 2006, United Kingdom
Issued share capital:	50,000 ordinary shares of £1.00 each
Registered shareholders and shares held:	GasD OpCo: 50,000 ordinary shares of £1.00 each
Directors:	Andrew Agg Malcolm Cooper Christopher Train
Secretaries:	David Howitt, Rachael Davidson and Alice Morgan

Accounting reference date:	31 March

3 Particulars of GasD PropCo

Name of subsidiary:	Gas Distribution Property Holdings Limited
Registered number:	10080921
Registered office:	1-3 Strand, London WC2N 5EH, United Kingdom
Date and place of incorporation:	23 March 2016, United Kingdom
Issued share capital:	2 ordinary shares of £1.00
Registered shareholders and shares held:	The Seller: 2 ordinary shares of £1.00
Directors:	Andrew Agg Malcolm Cooper Christopher Train
Secretaries:	David Howitt, Rachael Davidson and Alice Morgan
Accounting reference date:	31 March

Part B: New GasD Subsidiaries

The parties agree that: (i) the outstanding information contained in this Part B of Schedule 1 shall be agreed in good faith between the parties prior to the Incorporation Date; and (ii) the number of Initial Directors for each New GasD Subsidiary shall be appointed in accordance with the Shareholders' Agreement.

1 Particulars of GasD HoldCo

Proposed name of New GasD Subsidiary:	[•]
Registered office:	Brick Kiln Street, Hinckley, Leicester LE10 0NA, United Kingdom
Date and place of incorporation:	Incorporation Date, United Kingdom
Issued share capital on incorporation:	50,000 Ordinary Shares
Initial shareholders and shares held:	The Seller: 19,500 Ordinary Shares Investor: 30,500 Ordinary Shares
Initial Directors:	[•]
Initial Secretary:	[•]
Accounting reference date:	[31 March]

2 Particulars of GasD PledgeCo

Proposed name of New GasD Subsidiary:	[•]
Registered office:	Brick Kiln Street, Hinckley, Leicester LE10 0NA, United Kingdom
Date and place of incorporation:	Incorporation Date, United Kingdom
Issued share capital on incorporation:	50,000 ordinary shares of £1.00
Initial shareholders and shares held:	GasD HoldCo: 50,000 ordinary shares
Initial Directors:	[•]
Initial Secretary:	[•]
Accounting reference date:	[31 March]

3 Particulars of GasD MidCo

Proposed name of New GasD Subsidiary:	[•]
Registered office:	Brick Kiln Street, Hinckley, Leicester LE10 0NA, United Kingdom
Date and place of incorporation:	Incorporation Date, United Kingdom
Issued share capital on incorporation:	50,000 ordinary shares of £1.00
Initial shareholders and shares held:	GasD PledgeCo: 50,000 ordinary shares

Initial Directors:	[•]
Initial Secretary:	[•]
Accounting reference date:	[31 March]

Part C: MidCo Issuer

1 Particulars of MidCo Issuer

Proposed name of subsidiary:	[•]
Registered office:	Brick Kiln Street, Hinckley, Leicester LE10 0NA, United Kingdom
Date and place of incorporation:	Incorporation Date, United Kingdom
Issued share capital on incorporation:	50,000 ordinary shares of £1.00
Initial shareholders and shares held:	GasD MidCo: 50,000 ordinary shares
Initial Directors:	[•]
Initial Secretary:	[•]
Accounting reference date:	[31 March]

Schedule 2
Pre-Closing Financing and Implementation

PART A

1 Step 1: Draw down of debt by GasD OpCo and repayment of GasD OpCo Non-Subordinated Promissory Note

1.1 Prior to the Closing Date, the Seller shall use reasonable endeavours to procure that GasD OpCo shall enter into the New EIB Facility Agreement, provided that, prior to GasD OpCo entering into such agreement, the Seller shall consult with the Investor in good faith and take into account the reasonable opinions of the Investor in respect of the terms of the New EIB Facility Agreement.

1.2 Prior to the Closing Date, GasD OpCo will:

1.2.1 if the New EIB Facility Agreement has been entered into, draw down £400 million under the New EIB Facility Agreement; and

1.2.2 draw down under the term loan facilities of the Existing Term and Revolving Facilities Agreement,

in each case, subject to and in accordance with the terms set out therein, such amounts as necessary to achieve the Target Debt.

1.3 GasD OpCo will notify the Investor in writing as soon as reasonably practicable that the amounts above have been drawn down and that the Target Debt has been achieved and shall provide any additional information that the Investor may from time to time reasonably request in respect thereof.

1.4 The Seller shall procure that GasD OpCo shall use the proceeds obtained from the draw downs above to repay all of the outstanding amount of the GasD OpCo Non-Subordinated Promissory Note.

PART B

On the Incorporation Date, each of the following steps shall take place in the order set out in this Schedule 2:

2 Step 2: Incorporation of GasD HoldCo

2.1 On the Incorporation Date:

2.1.1 the Seller and the Investor shall incorporate GasD HoldCo and shall procure that GasD HoldCo shall have an issued share capital of £50,000, consisting of 50,000 Ordinary Shares of £1.00 each, of which:

(i) the Seller shall hold 19,500 Ordinary Shares, representing 39 per cent. of the Ordinary Shares; and

(ii) the Investor shall hold 30,500 Ordinary Shares, representing 61 per cent. of the Ordinary Shares;

2.1.2 the Seller shall subscribe for the Minority Owner Shares and hereby undertakes to pay to GasD HoldCo an amount in cash equal to the Seller Subscription Amount as the subscription price for the Minority Owner Shares by no later than the date falling five years after the date of execution of this Agreement by the Seller and the Investor;

2.1.3 the Investor shall subscribe for the Majority Owner Shares and hereby undertakes to pay to GasD HoldCo an amount in cash equal to the Investor Subscription Amount as the subscription price for the Majority Owner Shares by no later than the date falling five years after the date of execution of this Agreement by the Seller and the Investor; and

2.1.4 the parties shall procure that GasD HoldCo duly signs, executes and delivers a Deed of Adherence.

2.2 In respect of such incorporation, the Seller and the Investor shall procure that GasD HoldCo adopts the new articles of association for GasD HoldCo in the Agreed Form.

2.3 The particulars of GasD HoldCo on incorporation shall be as set out in Part B of Schedule 1.

3 Step 3: Incorporation of GasD PledgeCo

3.1 As soon as reasonably practicable following, and conditional upon, the completion of Step 1 above, GasD HoldCo shall:

3.1.1 incorporate GasD PledgeCo and shall procure that GasD PledgeCo has an issued share capital of £50,000, consisting of 50,000 ordinary shares of £1.00;

3.1.2 subscribe for all of the ordinary shares in GasD PledgeCo referred to in paragraph 3.1.1 and hereby undertakes to pay to GasD PledgeCo £50,000 as the subscription price for such shares by no later than the date falling five years after the date of execution of this Agreement by the Seller and the Investor; and

3.1.3 procure that GasD PledgeCo duly signs, executes and delivers a Deed of Adherence.

3.2 In respect of such incorporation, GasD HoldCo shall procure that GasD PledgeCo adopts the new articles of association for GasD PledgeCo in the Agreed Form.

3.3 The particulars of GasD PledgeCo on incorporation shall be as set out in Part B of Schedule 1.

4 Step 4: Incorporation of GasD MidCo

4.1 As soon as reasonably practicable following, and conditional upon, the completion of Step 2 above, GasD PledgeCo shall:

4.1.1 incorporate GasD MidCo and shall procure that GasD MidCo has an issued share capital of £50,000, consisting of 50,000 ordinary shares of £1.00 each;

4.1.2 subscribe for all of the ordinary shares in GasD MidCo referred to in paragraph 4.1.1 and hereby undertakes to pay to GasD MidCo £50,000 as the subscription price for such shares by no later than the date falling five years after the date of execution of this Agreement by the Seller and the Investor; and

4.1.3 procure that GasD MidCo duly signs, executes and delivers a Deed of Adherence.

4.2 In respect of such incorporation, GasD PledgeCo shall procure that GasD MidCo adopts the new articles of association for GasD MidCo in the Agreed Form.

4.3 The particulars of GasD MidCo on incorporation shall be as set out in Part B of Schedule 1.

5 Step 5: Incorporation of MidCo Issuer

5.1 As soon as reasonably practicable following, and conditional upon, the completion of Step 3 above, GasD MidCo shall:

5.1.1 incorporate MidCo Issuer and GasD MidCo shall procure that MidCo Issuer has an issued share capital of £50,000, consisting of 50,000 ordinary shares of £1.00; and

5.1.2 subscribe for all of the ordinary shares in MidCo Issuer referred to in paragraph 5.1.1 and hereby undertakes to pay to MidCo Issuer £50,000 as the subscription price for such shares by no later than the date falling five years after the date of execution of this Agreement by the Seller and the Investor.

5.2 In respect of such incorporation, GasD MidCo shall procure that MidCo Issuer adopts the new articles of association for MidCo Issuer in the Agreed Form.

5.3 The particulars of MidCo Issuer on incorporation shall be as set out in Part C of Schedule 1.

Schedule 3
Closing Obligations
(Clause 6.2)

1 Seller's Obligations

1.1 General obligations

1.1.1 On Closing, the Seller shall deliver or make available to the Investor and the New GasD Subsidiaries the following:

(i) the Shareholders' Agreement duly executed by the Seller;

(ii) evidence that the Seller is authorised to execute the Shareholders' Agreement and the transfers set out in paragraphs 2.2 and 4 of Schedule 4;

(iii) as agreed with the Investor and subject to the terms of the Shareholders' Agreement, the written resignations of certain of the directors and secretaries of the Initial GasD Subsidiaries from his office as a director or secretary to take effect on the date of Closing.

1.1.2 On Closing, the Seller shall deliver or make available to GasD MidCo the following:

(i) the certificates of incorporation, corporate seals (if any), cheque books, statutory and other books of GasD OpCo and GasD PropCo (duly kept up-to-date) and the share certificates in respect of each of GasD OpCo and GasD PropCo;

(ii) the Voting Powers of Attorney duly executed by the Seller; and

(iii) the transfers set out in paragraph 4 of Schedule 4.

1.2 Board resolutions of the GasD Group Companies

On Closing, the Seller shall procure the passing of board resolutions of each Initial GasD Subsidiary *inter alia*:

1.2.1 (in the case of GasD OpCo and GasD PropCo only) approving the registration of the GasD OpCo Shares transfers and the GasD PropCo Shares transfers referred to in Schedule 4 subject only to their being duly stamped;

1.2.2 accepting the resignations referred to in paragraph 1.1.1(iii) and appointing additional persons (in accordance with the articles of association for the relevant Initial GasD Subsidiary and the Shareholders' Agreement); and

1.2.3 changing the registered office of each Initial GasD Subsidiary to Brick Kiln Street, Hinckley, Leicester LE10 0NA, United Kingdom,

and shall hand to the Investor duly certified copies of such resolutions.

2 The Investor's Obligations

2.1 General obligations

On Closing, the Investor shall deliver or make available to the Seller:

2.1.1 evidence of the due fulfilment of the condition set out in Clause 4;

2.1.2 the Shareholders' Agreement duly executed by the Investor;

2.1.3 the Investor Loan duly executed by the Investor; and

2.1.4 evidence that the Investor is authorised to execute the Shareholders' Agreement and the Investor Loan.

3 New GasD Subsidiaries' obligations

3.1.1 On Closing, each New GasD Subsidiary shall deliver or make available to the Seller and the Investor:

(i) the Shareholders' Agreement duly executed by it (as applicable); and

(ii) evidence that it is authorised to execute the Deed of Adherence and the Shareholders' Agreement.

4 Other obligations

On Closing the parties shall procure that the Existing EIB Facility Agreement is amended and restated and that any guarantee provided in connection with it will be terminated, in each case, subject to and in accordance with the terms of the EIB Novation and Consent Deed, in the form as included in the Ansarada Data Room in folder 05.01.01.

Schedule 4
GasD OpCo Transfer and GasD PropCo Transfer
(Clause 2.2)

For the purposes of this Schedule 4, each action shall be conditional upon, and occur immediately following, the completion of the preceding step.

It is acknowledged by all parties that the GasD OpCo Subordinated Promissory Note must be capitalised by 31 March 2017. Consequently, if the Closing Date is later than 31 March 2017 then the parties will consult with each other in good faith to agree equivalent steps to replace those set out below, but only to the extent necessary to reflect the capitalisation of the GasD OpCo Subordinated Promissory Note by 31 March 2017.

1 Step 1: Investor Loan

The Investor and GasD HoldCo shall enter into the Investor Loan and the Investor shall make an initial amount equal to the Investor Loan Amount immediately available to GasD HoldCo in accordance with its terms and GasD HoldCo shall draw down such amount.

2 Step 2: GasD OpCo Subordinated Promissory Note

2.1 Immediately prior to Closing, but preceding the following steps, the Seller and GasD OpCo shall amend the terms of the GasD OpCo Subordinated Promissory Note so that, with immediate effect, it bears an interest rate equal to 6.7 per cent. per annum; and

2.2 GasD MidCo shall acquire the (amended) GasD OpCo Subordinated Promissory Note from the Seller for consideration left outstanding on inter-company account.

3 Step 3: GasD MidCo Loan

3.1 GasD MidCo and GasD PledgeCo shall enter into the GasD MidCo Loan Agreement;

3.2 GasD MidCo and GasD PledgeCo shall enter into a payment direction letter pursuant to which GasD MidCo shall direct GasD PledgeCo to pay an amount equal to *the sum* of: (a) the Investor Loan Amount; *plus* (b) £X + 1,775 million drawn down under the GasD MidCo Loan Agreement to the Seller to satisfy the purchase price of:

3.2.1 the Estimated GasD OpCo Cash Amount for the GasD OpCo Shares;

3.2.2 the GasD OpCo Subordinated Promissory Note;

3.2.3 an amount equal to the nominal value of the GasD PropCo Shares; and

3.2.4 the GasD PropCo Promissory Notes;

3.3 GasD PledgeCo and GasD HoldCo shall enter into the GasD PledgeCo Loan Agreement;

3.4 GasD PledgeCo and GasD HoldCo shall enter into a payment direction letter pursuant to which GasD PledgeCo shall direct GasD HoldCo to pay an amount equal to *the sum* of: (a) the Investor Loan Amount; *plus* (b) £X + 1,775 million drawn down under the GasD PledgeCo Loan Agreement to the Seller;

3.5 GasD HoldCo shall pay an amount equal to the Investor Loan Amount (excluding from such amount the amount of any adjustments made pursuant to Clause 6.8.1) to the Seller to satisfy the purchase price of:

3.5.1 the Estimated GasD OpCo Cash Amount for the GasD OpCo Shares;

3.5.2 the amount of £Z of the GasD OpCo Subordinated Promissory Note Amount;

3.5.3 an amount equal to the nominal value of the GasD PropCo Shares; and

3.5.4 the GasD PropCo Promissory Notes;

3.6 GasD HoldCo and the Seller shall enter into the GasD HoldCo Loan; and

3.7 GasD HoldCo and the Seller shall enter into a payment direction letter pursuant to which GasD HoldCo shall direct the Seller to retain for its own account an amount equal to £X +1,775 million drawn down under the GasD HoldCo Loan in satisfaction of the amount of £X +1,775 million of the GasD OpCo Subordinated Promissory Note Amount.

4 Step 4: Transfers

The Seller shall deliver or make available to GasD MidCo the following:

4.1.1 transfers of the GasD OpCo Shares duly executed by the Seller in favour of GasD MidCo accompanied by the relevant share certificates (or an express indemnity in a form satisfactory to the Investor in the case of any certificate found to be missing); and

4.1.2 transfers of the GasD PropCo Shares duly executed by the Seller in favour of GasD MidCo accompanied by the relevant share certificates (or an express indemnity in a form satisfactory to the Investor in the case of any certificate found to be missing); and

4.2 The GasD PropCo Promissory Notes shall be transferred by the Seller to GasD MidCo.

Schedule 5
Part 1
Completion Accounts
(Clause 7)

1 Form and Content of the Completion Accounts

1.1 The Draft Completion Accounts and the Completion Accounts shall be drawn up by the Seller in a format consistent with the form of Completion Accounts set out in Part 2 of this Schedule 5 and shall include the assets and liabilities of the Initial GasD Subsidiaries which are accounted for within those line items set out in Part 2 of this Schedule 5, being:

1.1.1 the Initial GasD Subsidiaries' Cash Balances;

1.1.2 the Intra-Group Financing Receivables;

1.1.3 the Intra-Group Financing Payables;

1.1.4 the Initial GasD Subsidiaries' Promissory Notes Amount;

1.1.5 the Third Party Indebtedness;

1.1.6 the Working Capital;

1.1.7 the Capex/Repex; and

1.1.8 the other line items set out in the column labelled "Other" in Part 2 of this Schedule 5 (the "**Other Balances**").

1.2 No categories of assets or liabilities other than those listed in paragraph 1.1 above shall be included in the Draft Completion Accounts or Completion Accounts.

1.3 The Initial GasD Subsidiaries' Cash Balances, Initial GasD Subsidiaries' Promissory Notes Amount, Third Party Indebtedness, Intra-Group Financing Payables and Intra-Group Financing Receivables and Other Balances shall not be taken into account in calculating the Working Capital.

2 Accounting Policies

2.1 The Draft Completion Accounts and the Completion Accounts shall be drawn up in accordance with:

2.1.1 the overriding accounting principles, policies, procedures, practices and estimation techniques set out in paragraphs 2.2 to 2.24 below;

2.1.2 to the extent not inconsistent with paragraph 2.1.1 above, the same accounting principles, policies, procedures, practices and estimation techniques (including in respect of the exercise of management judgement) as were actually adopted in respect of the relevant categories of assets and liabilities (including those assets and liabilities transferred under the Hive Out Agreement and the GasD PropCo Transfer Agreement) in the Accounts and to the extent that the Accounts included allocations of relevant categories of assets and liabilities between the GasD Business and other Seller's Group businesses, those bases of allocation shall be ignored; and

2.1.3 to the extent not inconsistent with paragraphs 2.1.1 and 2.1.2, IFRS as at the Closing Date.

2.2 The Draft Completion Accounts and the Completion Accounts shall be drawn up at the Effective Time. No account shall be taken of non-adjusting post balance sheet events (as defined in IAS 10) taking place after the Effective Time and regard shall only be had to information available to the parties to this Agreement up to the date on which the Seller delivers the Draft Completion Accounts to the Investor.

2.3 The Draft Completion Accounts and the Completion Accounts shall be expressed in pounds Sterling. Subject to paragraph 2.4, amounts in other currencies shall be translated into pounds Sterling at the average of the spot selling and buying rates for a transaction between the two currencies in question as quoted on Bloomberg or, if not available, Thomson Reuters, at 4.00 p.m. (UK time) on the Closing Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted.

2.4 The Draft Completion Accounts and the Completion Accounts shall be drawn up so that:

2.4.1 the Euro denominated bond issued by GasD FinCo with a face value of €750 million (the "**Euro Bond**") shall be recorded with a principal amount of £638,311,628.01 (plus accrued but unpaid interest translated into pounds Sterling at the average of the spot selling and buying rates for a transaction between the two currencies in question as quoted on Bloomberg or, if not available, Thomson Reuters, at 4.00 p.m. (UK time) on the Closing Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted) and shall be recorded in Third Party Indebtedness for the purposes of Part 2 of Schedule 5; and

2.4.2 the amount recorded on the balance sheet in respect of the Euro Bond in the line item entitled "Borrowings" shall be extracted and shall instead be recorded in "Other Balances" for the purposes of Part 2 of Schedule 5.

2.5 The Draft Completion Accounts and the Completion Accounts shall be prepared on a consolidated basis including all Initial GasD Subsidiaries.

2.6 The Draft Completion Accounts and the Completion Accounts shall be prepared on the basis that the Initial GasD Subsidiaries are a going concern and shall exclude the effect of change of control or ownership of the Initial GasD Subsidiaries (including in respect of any additional costs, liabilities and/or obligations that may arise as a result of changes to pension security arrangements) and will not take into account the effects of the Post-Closing Implementation or the post-Closing intentions or obligations of the Investor.

2.7 For the purposes of the Draft Completion Accounts and the Completion Accounts, the Effective Time shall be treated as the end of a Tax accounting period.

2.8 The provisions of this Schedule 5 shall be interpreted so as to avoid double counting (whether positive or negative) of any item to be included in the Draft Completion Accounts or the Completion Accounts.

2.9 Other than as stated in paragraphs 2.2 to 2.24, the Draft Completion Accounts and the Completion Accounts will include only the assets and liabilities that are accounted for within the line items set forth in Part 2 of this Schedule 5.

2.10 The Other Balances will not be reclassified as Initial GasD Subsidiaries' Cash Balances, Intra-Group Financing Payables, Intra-Group Financing Receivables, Initial GasD

Subsidiaries' Promissory Notes Amount, Third Party Indebtedness, Capex/Repex or Working Capital in the Draft Completion Accounts and/or the Completion Accounts.

2.11 No amounts shall be included in any of the items listed in paragraphs 1.1.1 to 1.1.7 in relation to deferred Tax assets or deferred Tax liabilities.

2.12 The Draft Completion Accounts and the Completion Accounts shall include no provision in respect of dilapidations.

2.13 There shall be no reclassification of: (i) fixed assets (recorded as such in any of the Accounts, the 30 September 2016 management accounts or the 31 October 2016 management accounts) to current assets or current liabilities; or (ii) current assets or current liabilities to fixed assets (recorded as such in any of the Accounts, the 30 September 2016 management accounts or the 31 October 2016 management accounts), in the Completion Accounts.

2.14 There shall be no recategorisation of leases accounted for as capital leases or operating leases in the Accounts and transferred under the Hive Out Agreement or the GasD PropCo Transfer Agreement. The categorisations applied in respect of such capital leases and operating leases in the Accounts shall apply in the Draft Completion Accounts and the Completion Accounts. Any leases entered into after the Accounts Date shall be categorised as a capital lease or operating lease using the same methodologies as were used in the Accounts.

2.15 Neither Initial GasD Subsidiaries' Cash Balances, Intra-Group Financing Payables, Intra-Group Financing Receivables, Initial GasD Subsidiaries' Promissory Notes Amount, Third Party Indebtedness, Capex/Repex nor Working Capital shall include any liability in respect of:

2.15.1 save as provided in paragraph 2.23, pensions (other than monthly contributions in the ordinary course);

2.15.2 uninsured employer's liabilities;

2.15.3 environmental exposures;

2.15.4 decommissioning (including gas holder demolition);

2.15.5 depth of cover exposures;

2.15.6 costs of investigating and remediating faulty Donkin valves;

2.15.7 employee severance costs;

2.15.8 compensation claims in respect of cancelled property developments; and

2.15.9 separation and restructuring costs.

If any provision (not being a category of provision referred to in sub-paragraphs 2.15.1 to 2.15.9) is made after 1 November 2016 in respect of any liability then that liability then shall be added to Third Party Indebtedness, unless and to the extent that there is a reasonable likelihood that GasD OpCo will be able to recover such liability under the terms of the GasD Licence (including totex), in which case that liability shall be added to Other Balances.

2.16 Neither Initial GasD Subsidiaries' Cash Balances, Intra-Group Financing Payables, Intra-Group Financing Receivables, Initial GasD Subsidiaries' Promissory Notes Amount, Third

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

Party Indebtedness, Capex/Repex nor Working Capital shall include any asset in respect of:

2.16.1 [***]

2.16.2 prepayment of gas holder demolition costs and expenses.

2.17 Intra-Group Financing Payables, Intra-Group Financing Receivables, Initial GasD Subsidiaries' Promissory Notes Amount and Third Party Indebtedness shall be stated gross of any unamortised debt issuance costs. Intra-Group Financing Payables, Intra-Group Financing Receivables, Initial GasD Subsidiaries' Promissory Notes Amount and Third Party Indebtedness shall exclude any redemption penalties and other break costs except to the extent that such redemption penalties and other break costs are triggered by Closing, in which case these shall be included in Third Party Indebtedness.

2.18 The line items in Part 2 of this Schedule 5 entitled "Derivative financial assets" and "Derivative financial liabilities" shall be excluded from the Initial GasD Subsidiaries' Cash Balances, Intra Group Financing Receivables, Intra Group Financing Payables, the Initial GasD Subsidiaries' Promissory Notes Amount, Third Party Indebtedness, Capex/Repex and Working Capital.

2.19 The Draft Completion Accounts and the Completion Accounts shall be prepared so as to include no provision with respect to any matter which is the subject of an indemnity in favour of the Investor or any member of the GasD Group under the terms of this Agreement or any of the other Transaction Documents.

2.20 Unamortised debt issuance costs shall be included in Other Balances.

2.21 The line item "Capex/Repex" in Part 2 of Schedule 5 shall be calculated on a consistent basis with past practice in terms of policies, procedures, classifications and definitions relating to fixed asset additions net of capital contributions and shall only include these items incurred in the period between 1 October 2016 up to and including the Effective Time.

2.22 Borrowings at the Effective Time shall be recorded on initial recognition at fair value and subsequently measured using the amortised cost basis of accounting, and, in respect of any borrowings novated to any of the GasD Group Companies between 30 September 2016 and Closing, shall include the fair value uplift recorded at the initial recognition of such liability at the time of novation (as amortised for the period from novation up to the Effective Time). The parties acknowledge that, this methodology resulted in a liability for: (i) the Existing EIB Facility Agreement of £518 million; and (ii) the FMS Instruments of £665 million, in each case on initial recognition.

2.23 No fixed asset disposals shall be offset against fixed asset additions for the purposes of Capex/Repex.

2.24 Any liability arising (or that will arise) under section 75 of the Pensions Act 1995 as a result of Sectionalisation (or, if Sectionalisation has not been implemented on or prior to Closing, any provision for such liability as calculated by the actuary to the National Grid UK Pension Scheme) shall be included in the Third Party Indebtedness, save to the extent the Seller has discharged (or agreed to discharge) such liability.

3 Preparation of the Completion Accounts

3.1 No later than 60 calendar days following Closing, the Seller shall deliver to the Investor the Draft Completion Accounts. Prior to such delivery, the Seller shall, so far as is practicable, consult with the Investor with a view to reducing the potential areas of disagreement.

3.2 In order to enable the Seller to prepare and agree the Draft Completion Accounts, the Investor shall and the New GasD Subsidiaries shall, and agree to procure that each member of the GasD Group shall:

3.2.1 keep up-to-date and, subject to reasonable notice, make available (or provide copies) without charge to the Seller's representatives and to the Seller's accountants all books, records, calculations, working papers and premises relating to the GasD Group during normal office hours and co-operate with them with regard to the preparation, review, agreement or determination of the Draft Completion Accounts; and

3.2.2 make available the employees and officers of the GasD Group (who shall be instructed to give information and explanations promptly) to assist the Seller in the performance of its duties under this Schedule 5.

3.3 The obligations to provide (or procure the provision of) information and access under paragraph 3.2 above shall start on the day following the Closing Date and shall continue until such time as the Completion Accounts have been finalised in accordance with this Schedule 5.

4 Review of Draft Completion Accounts

4.1 The Seller shall, and shall procure that each member of the Seller's Group shall, provided that reasonable notice has been given, provide such reasonable access without charge to their personnel (who shall be instructed to give information and explanations promptly), premises, books and records, calculations and working papers as the Investor and its representatives (including any accountants engaged by the Investor) may reasonably request in connection with their review of the Draft Completion Accounts and the finalisation of the Completion Accounts in accordance with this Schedule 5.

4.2 The Seller's obligations to provide (or procure the provision of) information and access under this paragraph 4 shall start upon delivery of the Draft Completion Accounts by the Seller to the Investor and shall continue until such time as the Completion Accounts have been finalised pursuant to this Schedule 5.

5 Finalisation of the Completion Accounts and Dispute Mechanism

5.1 If the Investor does not within 60 days of presentation to it of the Draft Completion Accounts give notice to the Seller that it disagrees with the Draft Completion Accounts or any item thereof, such notice stating the reasons for the disagreement in reasonable detail and specifying the adjustments which, in the Investor's opinion, should be made to the Draft Completion Accounts (the "**Disagreement Notice**"), the Draft Completion Accounts shall be final and binding on the parties for all purposes.

5.2 If the Investor gives a valid Disagreement Notice within such 60 days under paragraph 5.1 above, the Investor and the Seller shall attempt in good faith to reach agreement in respect of the Draft Completion Accounts and, if and to the extent they are unable to do so within

21 Business Days of such notification, the Investor or the Seller may by notice to the other require that the relevant items of the Draft Completion Accounts in respect of which there remains a disagreement between the Investor and the Seller (the "**Disputed Items**") be referred to the Reporting Accountants.

5.3 The Reporting Accountants shall be engaged jointly by the Investor and the Seller on the terms set out in this paragraph 5 and otherwise on such terms as shall be agreed, provided that neither the Investor nor the Seller shall unreasonably (having regard, *inter alia*, to the provisions of this paragraph 5) refuse their agreement to terms proposed by the Reporting Accountants or by the other party. If the terms of engagement of the Reporting Accountants have not been settled within 15 Business Days of their identity having been determined (or such longer period as the Investor and the Seller may agree) then, unless a party is unreasonably refusing its agreement to those terms, those accountants shall be deemed never to have become the Reporting Accountants and new Reporting Accountants shall be selected in accordance with the provisions of this Agreement.

5.4 Except to the extent that the Investor and the Seller agree otherwise, the Reporting Accountants shall determine their own procedure, but:

5.4.1 apart from procedural matters and as otherwise set out in this Agreement, shall determine only:

(i) whether any of the arguments for an alteration to the Disputed Items in the Draft Completion Accounts put forward in the Disagreement Notice is correct in whole or in part; and

(ii) if so, what alterations should be made to the Disputed Items in the Draft Completion Accounts in order to correct the relevant inaccuracy in it;

5.4.2 shall apply the accounting principles, policies, procedures, practices and estimation techniques set out in paragraph 2 of Part 1 of this Schedule 5;

5.4.3 shall make their determination pursuant to paragraph 5.4.1 above as soon as is reasonably practicable;

5.4.4 the procedure of the Reporting Accountants shall:

(i) give the Investor and the Seller a reasonable opportunity to make written representations to them; and

(ii) require that each of the Investor and the Seller supply the other with a copy of any written representations at the same time as they are made to the Reporting Accountants; and

5.4.5 for the avoidance of doubt, the Reporting Accountants shall not be entitled to determine the scope of their own jurisdiction.

5.5 The determination of the Reporting Accountants pursuant to paragraph 5.4.1 shall be made available to the Investor and the Seller in writing.

5.6 The Reporting Accountants shall act as experts and not as arbitrators and their determination of any matter falling within their jurisdiction shall be final and binding on the Investor and the Seller save in the event of manifest error (when the relevant part of their determination shall be void and the matter shall be remitted to the Reporting Accountants for correction). In particular, their determination shall be deemed to be incorporated into the Draft Completion Accounts.

5.7 The expenses (including irrecoverable VAT) of the Reporting Accountants shall be borne as they shall direct at the time they make any determination under paragraph 5.4.1 or, failing such direction, shall be borne equally between the Seller and the Investor.

5.8 The Investor and Seller shall co-operate with the Reporting Accountants and comply with their reasonable requests made in connection with the carrying out of their duties under this Agreement. In particular, the Investor shall keep up-to-date and, subject to reasonable notice, make available during normal office hours to the Reporting Accountants all books and records relating to the GasD Group as the Reporting Accountants may reasonably request during the period from the appointment of the Reporting Accountants down to the making of the relevant determination.

5.9 Nothing in this Schedule 5 shall entitle a party or the Reporting Accountants access to any information or document which is protected by legal professional privilege or litigation privilege, provided that neither the Investor nor the Seller shall be entitled to refuse to supply such part or parts of documents as contain only the facts on which the relevant claim or argument is based.

5.10 Each of the Investor and the Seller and the Reporting Accountants shall, and shall procure that its accountants and other advisers shall, keep all information and documents provided to them pursuant to this paragraph 5 confidential and shall not use the same for any purpose, except for disclosure or use in connection with the preparation of the Draft Completion Accounts, the proceedings of the Reporting Accountants or another matter arising out of this Agreement.

Schedule 5
Part 2
Form of Completion Accounts
(Clause 7)

Schedule 5 Part 2 (i)
Form of Completion Accounts

Term	Estimated	Actual	Reference
GasD Opco Base Price	**X**	**X**	Fixed amount
Estimated Cash Balances	**a**		Clause 6.3.1
Initial GasD Subsidiaries' Cash Balances		**A**	See definition
Estimated Intra-Group Financing Receivables	**b**		Clause 6.3.2
Intra-Group Financing Receivables		**B**	See definition
Estimated Intra-Group Financing Payables	**c**		Clause 6.3.3
Intra-Group Financing Payables		**C**	See definition
Initial GasD Subsidiaries' Promissory Notes Amount	**D**	**D**	See definition
Estimated Third Party Indebtedness	**e**		Clause 6.3.4
Third Party Indebtedness		**E**	See definition
Estimated Working Capital	**f**		Clause 6.3.5
Working Capital		**F**	See definition
Base Working Capital	**Y**	**Y**	Fixed amount
Estimated Capex/ Repex	**g**		Clause 6.3.6
Capex/ Repex		**G**	See definition
Forecast Capex/ Repex	**H**	**H**	See definition
Capex/ Repex Adjustment		**= G - H**	
Estimated Capex/ Repex Adjustment	**= g - H**		Clause 3.1.4 (iv)
Working Capital Adjustment		**= F - Y**	Clause 3.1.4 (iii)
Estimated Working Capital Adjustment	**= f - Y**		Clause 6.2.1
GasD OpCo Cash Amount	**= X + a + b + c + D + e + f + g - Y - H**	**= X + A + B + C + D + E + F + G - Y - H**	Clause 3.1.4
GasD OpCo Adjustment		**= (A-a) + (B-b) + (C-c) + (E-e) + (F-f) + (G-g)**	Clause 7.3.2

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[***]

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[***]

Schedule 6
Seller's Warranties
(Clause 9.1)

1 Initial GasD Subsidiaries

1.1 As at the date of this Agreement:

1.1.1 the Seller is the sole legal and beneficial owner of the GasD OpCo Shares and the GasD PropCo Shares and has the right to exercise all voting and other rights over the GasD OpCo Shares and the GasD PropCo Shares; and

1.1.2 GasD OpCo is the sole legal and beneficial owner of the shares in GasD FinCo and has the right to exercise all voting and other rights over such shares.

1.2 The GasD OpCo Shares, the GasD PropCo Shares and the shares in GasD FinCo comprise the whole of the issued and allotted share capital of GasD OpCo, GasD PropCo and GasD FinCo respectively, have been properly and validly issued and allotted, are fully paid or credited as fully paid and free from all Encumbrances.

1.3 No person has the right (whether exercisable now or in the future and whether contingent or not) to call for the allotment, conversion, issue, registration, sale or transfer or repayment of any share or loan capital or any other security giving rise to a right over the GasD OpCo Shares, GasD PropCo Shares or the capital of GasD FinCo under any option, agreement or other arrangement (including conversion rights and rights of pre-emption).

2 Insolvency etc.

2.1 None of the Initial GasD Subsidiaries is insolvent or unable to pay its debts as they fall due.

2.2 There are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or other insolvency proceedings concerning the Initial GasD Subsidiaries.

2.3 No steps have been taken to enforce any security over any of the share capital of the Initial GasD Subsidiaries.

3 Incorporation

Each of the Seller and the Initial GasD Subsidiaries is validly existing and is a company duly incorporated under the laws of England and Wales.

4 Authority to enter into Agreement

4.1 The Seller has the legal right and full power and authority to enter into and perform this Agreement and the Shareholders' Agreement.

4.2 The documents referred to in paragraph 4.1 will, when executed, constitute valid and binding obligations on the Seller in accordance with their respective terms.

5 Authorisation

The Seller has taken or will have taken by Closing all corporate action required by it to authorise it to enter into and perform this Agreement and the Shareholders' Agreement.

Schedule 7
Warranties given by the Investor
(Clause 9.2)

1 Authority and Capacity

1.1 Incorporation

The Investor is validly existing and is a company duly incorporated under the laws of England and Wales.

1.2 Authority to enter into Agreement

1.2.1 The Investor has the legal right and full power and authority to enter into and perform this Agreement and the Shareholders' Agreement.

1.2.2 The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Investor in accordance with their respective terms.

1.3 Authorisation

The Investor has taken or will have taken by Closing all corporate action required by it to authorise it to enter into and perform this Agreement and the Shareholders' Agreement.

2 Financing

At the relevant time for payment, the Investor will be able to make the Investor Loan and to pay the Investor Subscription Amount from its existing banking facilities and available cash.

3 Insolvency etc.

3.1 The Investor is not insolvent or unable to pay its debts as they fall due.

3.2 There are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or other insolvency proceedings concerning any member of the Investor's Group which may adversely affect the ability of the Investor to comply with this Agreement and the Shareholders' Agreement and no events have occurred which, under applicable laws, would justify such proceedings.

3.3 So far as the Investor is aware, no steps have been taken to enforce any security over any assets of any member of the Investor's Group which may adversely affect the ability of the Investor to comply with this Agreement and the Shareholders' Agreement and no event has occurred to give the right to enforce such security.

Schedule 8
Warranties given by the New GasD Subsidiaries
(Clause 9.3)

1 Authority and Capacity

1.1 Incorporation

The New GasD Subsidiary is validly existing and is a company duly incorporated under the laws of England and Wales.

1.2 Authority to enter into Agreement

1.2.1 The New GasD Subsidiary has the legal right and full power and authority to enter into and perform this Agreement and the Shareholders' Agreement.

1.2.2 The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the New GasD Subsidiary in accordance with their respective terms.

1.3 Authorisation

The New GasD Subsidiary has taken or will have taken by Closing all corporate action required by it to authorise it to enter into and perform this Agreement and the Shareholders' Agreement.

2 Insolvency etc.

2.1 The New GasD Subsidiary is not insolvent or unable to pay its debts as they fall due.

2.2 There are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or other insolvency proceedings concerning the New GasD Subsidiary which may adversely affect the ability of the New GasD Subsidiary to comply with this Agreement and the Shareholders' Agreement and no events have occurred which, under applicable laws, would justify such proceedings.

2.3 So far as the New GasD Subsidiary is aware, no steps have been taken to enforce any security over any assets of the New GasD Subsidiary which may adversely affect the ability of the New GasD Subsidiary to comply with this Agreement and the Shareholders' Agreement and no event has occurred to give the right to enforce such security.

Schedule 9
Limits and Claims

Part A – Seller's Warranties

1 Limitation of Liability

1.1 Time limitation for breach of the Seller's Warranties

The Seller shall not be liable for a breach of any of the Seller's Warranties unless the Investor has notified the Seller of the claim specifying the matters set out in paragraph 2.1 within 12 months following the Closing Date.

1.2 Maximum liability

The aggregate liability of the Seller for breach of any of the Seller's Warranties shall not exceed the Investor Equity Amount.

1.3 No double recovery and no double counting

No party may recover for breach of or under this Agreement or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), and no amount (including any Relief) (or part of any amount) shall be taken into account, set off or credited more than once for breach of or under this Agreement or otherwise, with the intent that there will be no double counting for breach of or under this Agreement or otherwise.

1.4 Mitigation of Losses

The Investor, GasD HoldCo and GasD MidCo shall procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability for any claim for breach of the Seller's Warranties.

1.5 Fraud

None of the limitations contained in this paragraph 1 shall apply to any claim for breach of the Seller's Warranties to the extent it arises or is increased as a result of fraud by the Seller.

2 Claims

2.1 Notification of potential Claims

If the Investor, GasD HoldCo or GasD MidCo become aware of any fact, matter or circumstance that may give rise to a claim for breach of any of the Seller's Warranties then the Investor shall as soon as reasonably practicable give a notice in writing to the Seller setting out such information as is available to the Investor concerning the potential claim.

2.2 Notification of Claims

Notice of any claim arising from a breach of any of the Seller's Warranties shall be given by the Investor to the Seller within the time limit specified in paragraph 1.1.

2.3 Commencement of Proceedings

Any claim notified pursuant to paragraph 2.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn six months after the notice is given pursuant to paragraph 2.2, unless at the relevant time legal proceedings in respect of the claim have been commenced by being both issued and served.

Part B – Claims and Tax Claims Only

For the avoidance of doubt, this Part B of Schedule 9 does not apply to claims for breach of any of the Seller's Warranties.

1 Limitation of Liability

1.1 Time limitation for Claims and Tax Claims

The Seller shall not be liable for any Claim or Tax Claim unless a notice of the Claim or Tax Claim is given by the Investor to the Seller:

1.1.1 in the case of any Tax Claim, within six years and three months of the end of the accounting period of the Initial GasD Subsidiaries current at the Closing Date; and

1.1.2 in the case of any other Claim within 24 months following the Closing Date.

1.2 Minimum Claims and Tax Claims

1.2.1 The Seller shall not be liable for any individual Claim or Tax Claim (or a series of Claims or Tax Claims arising from substantially identical facts or circumstances) where the liability agreed or determined for any such Claim or Tax Claim or series of Claims or Tax Claims does not exceed £20 million.

1.2.2 Where the liability agreed or determined in respect of any Claim or Tax Claim or series of Claims or Tax Claims (as the case may be) exceeds the amount referred to in paragraph 1.2.1, the Seller shall be liable for the full amount of all such Claims or Tax Claims and not just the excess.

1.2.3 This paragraph 1.2 shall not apply to any Tax Claim: (i) in respect of SDLT, SDRT or stamp duty; or (ii) under paragraph 7.5 (relating to TWDV) of Schedule 11.

1.3 Aggregate minimum Claims

1.3.1 The Seller shall not be liable for any Claim unless the aggregate amount of all Claims for which the Seller would otherwise be liable exceeds an amount equal to 2 per cent. of the Investor Equity Amount.

1.3.2 Where the liability agreed or determined in respect of all Claims referred to in paragraph 1.3.1 exceeds the amount referred to in paragraph 1.3.1, the Seller shall be liable for the full amount of all such Claims and not just the excess.

1.4 Maximum liability

The aggregate liability of the Seller for all Claims and Tax Claims shall not exceed an amount equal to 10 per cent. of the Investor Equity Amount.

1.5 Contingent liabilities

The Seller shall not be liable for any Claim or Tax Claim in respect of any liability which is contingent unless and until such contingent liability becomes an actual liability and is due and payable.

1.6 Losses

The Seller shall not be liable for any Claim or Tax Claim in respect of any loss of profit, loss of goodwill or any indirect or consequential losses.

1.7 Provisions

The Seller shall not be liable for any Claim or Tax Claim if and to the extent that proper allowance, provision or reserve is made in the Completion Accounts for the matter giving rise to the Claim or Tax Claim or such matter was otherwise taken into account as a liability in the preparation of the Completion Accounts.

1.8 Matters arising subsequent to this Agreement

The Seller shall not be liable for any Claim to the extent that the Losses occasioned by the Claim have arisen as a result of:

1.8.1 Agreed matters

any matter or thing done or omitted to be done pursuant to and in compliance with this Agreement or any other Transaction Document or otherwise at the request in writing or with the approval in writing of the Investor;

1.8.2 Acts of the Investor

any act, omission or transaction of the Investor or any member of the Investor's Group or any of the GasD Group Companies, or their respective directors, officers, employees or agents or successors in title, after Closing:

(i) outside the ordinary course of business; or

(ii) otherwise than in order to comply with law, pursuant to a legally binding commitment to which the GasD Group is subject on or before Closing or in accordance with or approved under the Shareholders' Agreement;

1.8.3 Changes in legislation, regulation or practice

(i) the passing of, or any change in, after the date of this Agreement, any law, rule, regulation or administrative practice of any government, governmental department, agency or regulatory body, including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not actually (or prospectively) in effect at the date of this Agreement;

(ii) any change after the date of this Agreement of any generally accepted interpretation or application of any legislation; or

(iii) any change after the date of this Agreement of any generally accepted accounting principles, procedure or practice; or

1.8.4 Accounting and Taxation policies

any change in accounting or Taxation policy, bases or practice of the Investor, the Investor's Group or the GasD Group Companies introduced or having effect after the date of this Agreement.

1.9 Insurance

Without prejudice to Clause 12, the Seller shall not be liable for any Claim or Tax Claim to the extent that the Losses in respect of which the Claim or Tax Claim is made: (i) are covered by a policy of insurance; or (ii) would have been covered if the policies of insurance for the benefit of the GasD Group Companies in force at the date of Closing had been maintained after Closing on no less favourable terms.

1.10 Investor's, GasD MidCo's and GasD HoldCo's right to recover

1.10.1Recovery for Actual Liabilities

The Seller shall not be liable to pay an amount in discharge of any Claim or Tax Claim unless and until the liability for which the Claim or Tax Claim is made has become due and payable.

1.10.2 Prior to recovery from the Seller etc.

If, before the Seller pays an amount in discharge of any Claim or Tax Claim, the Investor, any member of the Investor's Group or any GasD Group Company recovers or is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Investor, any member of the Investor's Group or any GasD Group Company (in whole or in part) for the loss or liability which is the subject matter of the Claim or Tax Claim, the Investor, GasD MidCo and GasD HoldCo shall procure that, before steps are taken to enforce a Claim or Tax Claim against the Seller following notification under paragraph 2.2 or under any other Transaction Document, all reasonable steps are taken to enforce the recovery against the third party and any actual recovery (less any Taxation suffered thereon and any reasonable costs incurred in obtaining such recovery) shall reduce or satisfy, as the case may be, such Claim or Tax Claim to the extent of such recovery.

1.10.3 Following Recovery from the Seller etc.

(i) If the Seller has paid an amount in discharge of any Claim or Tax Claim and subsequently the Investor, any member of the Investor's Group or any GasD Group Company is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Investor, any member of the Investor's Group or any GasD Group Company (in whole or in part) for the loss or liability which is the subject matter of the Claim or Tax Claim, the Investor, GasD HoldCo and GasD MidCo shall procure that all steps are taken as the Seller may reasonably require to enforce such recovery and shall procure that GasD MidCo shall, pay to the Seller as soon as practicable after receipt an amount equal to: (i) any sum recovered from the third party less any Taxation suffered thereon and less any costs and expenses incurred in obtaining such recovery; or, if less, (ii) the amount previously paid by the Seller to the Investor, GasD HoldCo or GasD MidCo (as appropriate); and

(ii) Any payment made by GasD MidCo to the Seller under this paragraph 1.10.3 shall, to the extent possible, be made by way of further adjustment of the GasD OpCo Cash Amount and the provisions of Clause 3.3 shall apply *mutatis mutandis*.

1.11 No double recovery and no double counting

No party may recover for breach of or under this Agreement or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), and no amount (including any Relief) (or part of any amount) shall be taken into account, set off or credited more than once for breach of or under this Agreement or otherwise, with the intent that there will be no double counting for breach of or under this Agreement or otherwise.

1.12 Mitigation of Losses

The Investor, GasD HoldCo and GasD MidCo shall procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability for any claim for breach of or under this Agreement.

1.13 Fraud

None of the limitations contained in this Part B shall apply to any claim for breach of or under this Agreement to the extent it arises or is increased as a result of fraud by the Seller.

2 Claims

2.1 Notification of potential Claims

If the Investor, GasD HoldCo or GasD MidCo become aware of any fact, matter or circumstance that may give rise to a Claim or a Cornerstone Claim then the Investor shall as soon as reasonably practicable give a notice in writing to the Seller setting out such information as is available to the Investor concerning the potential Claim or Cornerstone Claim.

2.2 Notification of Claims

Notice of any Claim shall be given by the Investor to the Seller within the time limits specified in paragraph 1.1 of this Part B.

2.3 Commencement of proceedings

Any Claim notified pursuant to paragraph 2.1 or 2.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn six months after:

2.3.1 the notice is given pursuant to paragraph 2.1 or 2.2 (as the case may be); or

2.3.2 where paragraph 1.5 applies, a contingent liability becomes an actual liability,

unless at the relevant time legal proceedings in respect of the Claim have been commenced by being both issued and served.

2.4 Investigation by the Seller

In connection with any matter or circumstance that may give rise to a Claim:

2.4.1 the Investor, GasD HoldCo and GasD MidCo on the one hand and the Seller on the other hand shall allow, and shall procure that the relevant GasD Group Company allows, the other party and its financial, accounting or legal advisers to investigate the matter or circumstance alleged to give rise to the Claim and whether and to what extent any amount is payable in respect of such Claim; and

2.4.2 the Investor, GasD HoldCo and GasD MidCo on the one hand shall disclose to the Seller on the other hand all material of which the Investor, GasD HoldCo and GasD MidCo are aware which relates to the Claim and shall procure that any other GasD Group Companies shall give, subject to their being paid all reasonable costs and expenses, all such information and assistance, including access to premises and personnel, making such personnel available for factual interviews, preparation for testimony, giving evidence, producing affidavits and other similar activities, and the right to examine and copy or photograph any assets, accounts, documents and records, as the Seller or its financial, accounting or legal advisers may reasonably request subject to the Seller agreeing in such form as the Investor, GasD HoldCo or GasD MidCo (as appropriate) may reasonably require to keep all such information confidential and to use it only for the purpose of investigating and defending the Claim in question.

Schedule 10

Committee

1 Committee

1.1 Within 10 Business Days of the date of this Agreement, the Seller and the Investor shall jointly establish and maintain a committee (the "**Committee**") until Closing.

1.2 The Committee shall provide, between the date of this Agreement and Closing, a forum to discuss (to the extent helpful but subject always to, and in accordance with, the relevant provisions of this Agreement):

1.2.1 the progress of, and any updates relating to, the satisfaction of the condition in Clause 4;

1.2.2 matters arising pursuant to this Agreement, including in relation to the pre-closing conduct of business provisions set out in Clause 5;

1.2.3 the preparation of the Initial Budget;

1.2.4 the agreement and implementation of the Business Policies; and

1.2.5 any operational decisions and escalation.

1.3 Unless otherwise agreed between the Seller and the Investor in writing:

1.3.1 the Committee shall comprise an even number of representatives between six and eight;

1.3.2 the Seller shall be entitled to appoint 50 per cent. of the representatives and the Investor shall be entitled to appoint the remaining 50 per cent. of the representatives;

1.3.3 upon written notice to the other at any time prior to a relevant meeting:

(i) each of the Seller and the Investor shall have the right to remove and replace any of its representatives with such other person as such person may, in its absolute discretion, determine;

(ii) each representative may appoint an alternate to attend a meeting in their place and to exercise any or all of the person's rights; and

(iii) each of the Seller and the Investor may invite other personnel to attend meetings in an advisory or observer capacity if relevant to the matters being dealt with by the Committee;

1.3.4 members may attend meetings in person or by telephone;

1.3.5 the quorum for any meeting of the Committee shall be at least one representative (or alternate) of each of the Seller and the Investor;

1.3.6 each of the Seller and the Investor may appoint one of its representatives to chair any meeting, with the parties' appointees alternating in the chair (but such chair shall not have a casting vote); and

1.3.7 the Committee shall have no authority to amend any Transaction Document.

1.4 Meetings of the Committee shall be held:

1.4.1 at least once a week during the period between the date of this Agreement and Closing; or

1.4.2 at any other time at the request of either the Seller or the Investor, provided that such request is submitted to the other person (and its members of the Committee) on at least four days' notice (or such shorter period of notice subsequently ratified by the Committee).

1.5 The Seller and the Investor agree to provide the Committee with such information as the Committee may reasonably request in relation to the Committee's activities as outlined in paragraph 1.2 above, but such information shall in any event not include information if the provision of that information would not be permitted under Laws, regulation or any requirement or request of a Competent Authority or information that is commercially sensitive (as determined by the Seller or the Investor, as the case may be (acting reasonably)).

1.6 Except as set out otherwise in this Agreement, the Committee shall determine how it shall conduct its proceedings to review, discuss and consider the matters set out in paragraph 1.2 above.

Schedule 11
Tax Covenant
(Clause 10)

1 Interpretation

1.1 In this Schedule 11 the following expressions bear the following meanings:

"**Corresponding Benefit**" means any Relief obtained by an Initial GasD Subsidiary as a result of any corresponding adjustments in relation to the increased profits (or reduced losses) suffered by a member of the NGHO Group in circumstances where the profits in respect of a Transaction in which that member of the NGHO Group and the Initial GasD Subsidiary are involved are increased for Taxation purposes (or the losses are reduced) such that the member of the NGHO Group realises profits which are greater (or losses which are lower) for Taxation purposes than it would otherwise have had the profits or losses been calculated by reference to the actual economic terms of the Transaction;

"**CTA 2009**" means the Corporation Tax Act 2009;

"**CTA 2010**" means the Corporation Tax Act 2010;

"**Debt Novation Relief**" means any Relief available to an Initial GasD Subsidiary in connection with any Indebtedness novated to it by a member of the NGHO Group and arising as a result of any Initial GasD Subsidiary ceasing to be a member of a group or consortium or other association for Taxation purposes with the Seller as a result of the transactions contemplated by this Agreement;

"**Degrouping Election**" means an election under Section 792 CTA 2009 to reallocate a chargeable realisation gain from an Initial GasD Subsidiary to NGG or a member of the NGHO Group;

"**Degrouping Taxation**" means any Taxation arising as a result of any Initial GasD Subsidiary ceasing to be a member of a group or consortium or other association for Taxation purposes with the Seller as a result of the transactions contemplated by this Agreement, but excluding any Taxation arising after Closing on any loan relationship credits resulting from a change in the tax-adjusted carrying value of a loan relationship of any Initial GasD Subsidiary that was novated to such Initial GasD Subsidiary prior to Closing by a member of the NGHO Group;

"**Employee Share Acquisition Relief**" means a Relief arising (i) as a result of the exercise after Closing of an employee share option granted before Closing, or (ii) after Closing in respect of any other share incentive or other incentive plan granted before Closing;

"**HMRC Clearances**" means the clearance applications included in the Ansarada Data Room as documents 03.01.01.01, 03.01.01.03, 03.01.01.05, 03.01.01.07 and 03.01.01.09;

"**NGHO Group**" means the Seller and any person from time to time controlled by the Seller, under common control with the Seller or which controls the Seller (defining "control", "controls" and "controlled" in accordance with Section 450 CTA 2010), other than the Initial GasD Subsidiaries;

"**Pensions Relief**" means any Relief which arises after Closing to an Initial GasD Subsidiary as a result of any contribution made by such Initial GasD Subsidiary to a pension fund on or before Closing;

“**Purchaser**” means GasD MidCo;

“**Purchaser’s Group**” means the Purchaser and any person from time to time controlled by the Purchaser, under common control with the Purchaser or which controls the Purchaser (defining “control”, “controls”, and “controlled” in accordance with Section 450 CTA 2010), other than the Initial GasD Subsidiaries;

“**Purchaser’s Relief**” means:

(i) any Relief to the extent that it arises to an Initial GasD Subsidiary:

  (a) in respect of a Tax Period beginning after Closing; or

  (b) in respect of a Straddle Period but only to the extent that it arises after Closing; or

  (c) in respect of a Transaction (including for the avoidance of doubt any Relevant Change of Law) occurring or deemed to have occurred after Closing; or

(ii) any Relief attributable to any member of the Purchaser’s Group,

but does not include:

(a) a Corresponding Benefit; or

(b) a Debt Novation Relief, a Pensions Relief or an Employee Share Acquisition Relief;

“**Relevant Change of Law**” means any change in the law (including subordinate legislation) or in financial reporting or accounting standards or practice coming into force after the date of this Agreement;

“**Relevant Proportion**” means the proportion equal to the proportion of Xoserve Limited’s ordinary share capital owned in aggregate by the members of the GasD Group at the time the relevant Seller’s Relief is utilised;

“**Relief**” includes any right to repayment of Taxation from a Tax Authority and any relief, loss, allowance, set-off or credit in respect of Taxation and any deduction in computing or against profits for Taxation purposes;

“**Seller VAT Group**” means the VAT group of which National Grid Electricity Transmission plc is the representative member;

“**Seller’s Relief**” has the meaning given by paragraph 6.1;

“**Straddle Period**” means any period relevant for Taxation purposes of each Initial GasD Subsidiary commencing on or before Closing but ending after Closing;

“**Tax Documents**” has the meaning given by paragraph 7.1;

“**Tax Effect**” has the meaning given by paragraph 4.2;

“**Tax Period**” means, in respect of each Initial GasD Subsidiary, any period in respect of which Taxation is assessed or charged on that Initial GasD Subsidiary;

“**Transaction**” includes any transaction, circumstance, state of affairs, act, event, arrangement, provision or omission of whatever nature;

"**VAT**" means within the European Union such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and outside the European Union any similar Taxation levied by reference to added value or sales; and

"**VATA 1994**" means the Value Added Tax Act 1994.

1.2 References to "**Taxation**" or "**Tax**" comprise:

1.2.1 all forms of taxation (other than any accounting provision for deferred tax) and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions and levies (including social security contributions and other payroll taxes), in each case in the nature of tax, whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or otherwise and shall further include payments to a Tax Authority on account of Tax (but not, for the avoidance of doubt, payments to a court or tribunal on account of Tax), in each case whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and whether chargeable directly or primarily against or attributable directly or primarily to an Initial GasD Subsidiary or any other person;

1.2.2 all penalties and interest relating to any matter within paragraph 1.2.1 above, and all penalties and interest relating to any Tax Document submitted to the relevant Tax Authority prior to Closing; and

1.2.3 the setting off against any Taxation liability, or against profits giving rise to a Taxation liability, in each case in respect of which a valid claim could have been made against the Seller under this Schedule, of a Purchaser's Relief, or the reduction of such profits as a result of a Purchaser's Relief, and the amount of the Taxation shall in such cases be deemed to be the amount of Taxation for which a valid claim could have been made under this Schedule but for such setting off or reduction,

provided that references to Taxation shall include (i) stamp duty land tax (and interest and penalties in respect of stamp duty land tax) but shall not extend to United Kingdom stamp duty or penalties or interest in respect of such stamp duty and (ii) in paragraph 2.2 only, any amount in respect of interest and/or penalty in respect of value added tax for which GasD OpCo is liable under paragraph 2.1.2 of Schedule 15 of the Hive Out Agreement;

1.3 references to "profits" include income, profits or gains (including chargeable or capital gains) of any description or from any source and references to profits earned, accrued, received or otherwise recognised include profits deemed to have been or treated as earned, accrued, received or otherwise recognised for Taxation purposes;

1.4 references to the "Purchaser" shall, where the benefit of this Schedule has been assigned or novated under Clause 14.3, mean the person or persons for the time being entitled to the benefit of this Schedule provided that the liability of the Seller to the Purchaser under this Schedule shall be no greater than such liability would have been but for the assignment or novation and in particular the exclusions set out in paragraph 4 will apply with reference to the assigning or novating party as well as the assignee or novatee;

1.5 for the avoidance of doubt, references in this Schedule to a payment, liability, sum due or claim under paragraph 3 include a payment, liability, sum due or claim in respect of a breach of paragraph 3;

1.6 in the case of any conflict between the provisions of this Schedule and any other provision of this Agreement, this Schedule shall prevail. In the case of any conflict between the provisions of this Schedule and the Shareholders' Agreement, this Schedule shall prevail;

1.7 if there is a dispute between the parties about the time at which a Relief arose (in order to determine whether the Relief arises after Closing or arises in respect of a Transaction occurring or deemed to have occurred after Closing) then the parties agree that, for the purposes of resolving such dispute only, Closing shall be deemed to be the end of a Tax Period, and the matter shall be determined by applying the accounting policies and practices adopted by the Initial GasD Subsidiary that would apply were that to be the case.

2 Primary Liabilities

2.1 Subject to any other provisions of this Schedule, the Seller agrees to pay to the Purchaser on the due date for payment an amount equal to any Degrouping Taxation payable or suffered by an Initial GasD Subsidiary.

2.2 Subject to any other provisions of this Schedule, the Seller warrants to the Purchaser that (a) the Hive Out and the transfer of properties relating to the GasD Business to GasD PropCo and all other steps relating to the establishment of the GasD Group and the transfer of the GasD Business to the GasD Group was carried out in all material respects in accordance with the Hive Out Agreement, this Agreement and the information supplied to HMRC in connection with the HMRC Clearances, and (b) save as otherwise agreed between the Seller and the Investor, the only Indebtedness novated to the Initial GasD Subsidiaries by a member of the NGHO Group on or before Closing was the novation of European Investment Bank loans with a principal amount of £360 million (the "**EIB Debt**") from NGG to GasD OpCo and the novation of £300 million (aggregate original face value) of RPI linked listed instruments (the "**RPI Linked Debt**") from NGG to GasD FinCo and (save as otherwise agreed between the Seller and the Investor) no changes have been made to the terms of the Indebtedness so novated since the relevant novation other than the changes to the EIB Debt when the Existing EIB Facility Agreement is amended and restated in accordance with the terms of the EIB Novation and Consent Deed (see paragraph 4 of Schedule 3 to this Agreement) and the Seller agrees to pay to the Purchaser on the due date for payment an amount equal to any Taxation payable or suffered by an Initial GasD Subsidiary or GasD PropCo in consequence of a breach of either of these warranties.

2.3 Subject to any other provisions of this Schedule, the Seller agrees to pay to the Purchaser on the due date for payment the costs and expenses (including the costs and expenses of taking any action under this Schedule) reasonably and properly incurred by the Purchaser and the Initial GasD Subsidiaries in connection with or in consequence of any matter for which a successful claim is made by the Purchaser under this Schedule.

2.4 Any payments made under paragraphs 2.1, 2.3, 2.3 or 3 shall, so far as permitted by law, be treated as an adjustment to the consideration paid by the Purchaser for the GasD OpCo Shares or the GasD PropCo Shares (as applicable).

2.5 All payments made under this Schedule shall be made gross, free of any right of counterclaim or set off and without deduction or withholding of any kind other than any deduction or withholding required by law.

2.6 If the Seller makes a deduction or withholding required by law from a payment under paragraph 2 or 3 of this Schedule, the sum due from the Seller shall be increased to the extent necessary to ensure that, after the making of any deduction or withholding, the Purchaser receives a sum equal to the sum it would have received had no deduction or withholding been made.

2.7 If a payment under paragraph 2 or 3 of this Schedule will be or has been subject to Tax, the Seller shall (to the extent that the amount of the payment has not already been increased to take account of the Taxation that will or would be charged on receipt) pay to the Purchaser the amount (after taking into account Tax payable in respect of the amount) that will ensure that the Purchaser receives and retains a net sum equal to the sum it would have received had the payment not been subject to Tax.

3 UK Stamp Duty

The Seller warrants to the Purchaser that, as at Closing, all documents forming part of the title to any asset of an Initial GasD Subsidiary or which an Initial GasD Subsidiary may wish to enforce or produce in evidence are duly stamped and have where appropriate been adjudicated. If this warranty is untrue with respect to any document and in the reasonable opinion of the Purchaser it is necessary to procure stamping of such document, then the Seller shall promptly procure the stamping of such document without cost to the Purchaser or any Initial GasD Subsidiary (including as regards interest or penalties).

4 Exclusions

4.1 The Seller shall not be liable under paragraph 2 or paragraph 3 above:

4.1.1 to the extent that the Tax Effect would not have arisen but for an act carried out by the Seller or an Initial GasD Subsidiary outside the ordinary course of their respective normal businesses prior to Closing at the written request of GasD MidCo or the Investor, provided that none of the steps contemplated in, or the actions required to be performed under, this Agreement or the Hive Out Agreement shall be treated for this purpose as made at the written request of GasD Midco or the Investor; or

4.1.2 in respect of any Tax Effect to the extent that such Tax Effect would not have arisen but for a voluntary Transaction carried out after Closing outside the ordinary course of business by a member of the Purchaser's Group or an Initial GasD Subsidiary and which has been carried out otherwise than pursuant to a legally binding obligation (whether or not conditional) entered into by any Initial GasD Subsidiary on or before Closing. For the avoidance of doubt, a Transaction carried out at the written request of the Seller, or otherwise which the member of the Purchaser's Group or Initial GasD Subsidiary was required to carry out under this Agreement or the Shareholders' Agreement, shall not be a voluntary Transaction for these purposes. Also for the avoidance of doubt, the execution, becoming unconditional or completion of this Agreement shall not be a voluntary Transaction for these purposes; or

4.1.3 in respect of any Tax Effect to the extent that such Tax Effect arises as a consequence of any change (including, for the avoidance of doubt, any change with retrospective effect) after Closing in any accounting policy or practice adopted by an Initial GasD Subsidiary, except where such change was necessary in order to comply with any applicable legal, regulatory, financial reporting, accounting or other requirement in force or announced before Closing by the relevant authority; or

4.1.4 in respect of any Tax Effect to the extent that such Tax Effect arises as a result of a failure by the Purchaser to comply with any of its obligations under this Agreement; or

4.1.5 in respect of any interest and penalties to the extent that such interest and penalties are attributable to unreasonable delay by the Purchaser, any member of the Purchaser's Group or, after Closing, any Initial GasD Subsidiary; or

4.1.6 in respect of any Tax Effect to the extent that such Tax Effect arises as a consequence of a Relevant Change of Law; or

4.1.7 to the extent that the Taxation has been borne by a person other than an Initial GasD Subsidiary or a member of the Purchaser's Group; or

4.1.8 **t**o the extent that any Relief, other than a right to repayment of Taxation, which:

(i) was not taken into account in, or in computing a provision for Taxation in, the Completion Accounts; and

(ii) is not a Purchaser's Relief,

is available (or would have been available but for a voluntary Transaction carried out by a member of the Purchaser's Group (at any time) or an Initial GasD Subsidiary (after Closing)) or is (or would, but for that voluntary Transaction, have been) made available for no consideration by a member of the NGHO Group and can (or could, but for that voluntary Transaction) actually be used to relieve or mitigate the Tax Effect giving rise to the claim. For the avoidance of doubt, the execution, becoming unconditional or completion of the Agreement shall not be a voluntary Transaction for these purposes.

4.2 "**Tax Effect**" means:

(i) Taxation payable or suffered; and

(ii) costs and expenses within paragraph 2.3.

5 Due Date for Payment

5.1 The due date for payment under paragraph 2 shall be the date falling five Business Days after service by the Purchaser of a notice containing a written demand (which shall set out reasonable particulars of the liability) in respect of the matter for which the Seller is liable, or, where later and if applicable:

5.1.1 where a liability of the Seller under paragraph 2 arises from a liability of the Purchaser or an Initial GasD Subsidiary to make a payment of Taxation which has not at the date of the notice under paragraph 9.1 become due and payable to the relevant Tax Authority, the date falling five Business Days before the latest date (taking into account the conduct of the matter giving rise to the claim) by which that Taxation is due and payable to the relevant Tax Authority, provided that:

(i) if in the course of an appeal the date on which the Taxation is due and payable is postponed following an application to the relevant Tax Authority, court or tribunal, the due date for payment by the Seller shall be five Business Days before such later date when the amount of Taxation becomes due and payable; and

(ii) the Seller may at its option pay the whole or part of the amount due to the Purchaser on an earlier date or dates and the Purchaser shall procure that such amount (or the appropriate part of it) is promptly paid to the relevant Tax Authority; and

5.1.2 in the case of the setting off of a Purchaser's Relief, the date on which the relevant Taxation liability would have been payable but for the setting off of the relevant Relief.

5.2 Any payment due to be made under this Schedule shall carry interest from the due date for payment or, if the claim under this Schedule arises from a payment of Taxation which has become due and payable to the relevant Tax Authority, and has been made before the date of the notice under paragraph 9.1, the date such payment was made, until actual payment at the rate set out in Clause 14.9 provided that interest shall not accrue for any period in respect of which interest due to the relevant Tax Authority is included in the payment due to be made under this Schedule (or would be but for the exclusion in paragraph 4.1.5) before the application of this paragraph 5.2.

6 Seller's Reliefs

6.1 If the auditors for the time being of an Initial GasD Subsidiary or Xoserve Limited confirm in writing (at the request and expense of the Seller) to the Seller and the Purchaser that a Pensions Relief, an Employee Share Acquisition Relief or a Debt Novation Relief has been utilised (in the case of a Pensions Relief or an Employee Share Acquisition Relief, within six years and three months of the end of the accounting period of the Initial GasD Subsidiaries current at the Closing Date) by an Initial GasD Subsidiary, a member of the Purchaser's Group or Xoserve Limited to reduce or eliminate Taxation for which the Seller is not liable under this Schedule (other than as a result of such Relief being set off against such Taxation liability or against profits giving rise to such Taxation liability) (such Relief being referred to as a "**Seller's Relief**") then, subject to Clause 6.3, (i) in the case of a Seller's Relief utilised by an Initial GasD Subsidiary or a member of the Purchaser's Group, the amount of Taxation saved by the Seller's Relief, or (ii) in the case of a Seller's Relief utilised by Xoserve Limited, the Relevant Proportion of the amount of Taxation saved by the Seller's Relief, shall (A) be set off against any payment then due from the Seller under paragraph 2 or 3 of this Schedule or (B) (to the extent that it is not so set off) shall be paid by the Purchaser to the Seller within ten Business Days of the Seller's Relief being utilised.

6.2 If any Initial GasD Subsidiary or member of the Purchaser's Group discovers that a Seller's Relief has been utilised (in the case of a Pensions Relief or an Employee Share Acquisition Relief within six years and three months of the end of the accounting period of the Initial GasD Subsidiaries current at the Closing Date), the Purchaser shall, or shall procure that the Initial GasD Subsidiary or member of the Purchaser's Group concerned shall, as soon as reasonably practicable give full details to the Seller and the Purchaser shall, or shall procure that the Initial GasD Subsidiary or member of the Purchaser's Group concerned shall, supply to the Seller such information as it may reasonably require to verify the amount of the Seller's Relief.

6.3 No Seller's Relief shall be taken into account under paragraph 6.1 to the extent the auditors confirm that the Relief has not given rise to a net financial benefit for an Initial GasD Subsidiary, Xoserve Limited or a member of the Purchaser's Group and (without limitation to any other circumstance that may cause the auditors to conclude that no net

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financial benefit has arisen) if and to the extent that the benefit of a reduction or elimination of Taxation is passed to, shared with or otherwise taken into account in reducing charges made to a customer of an Initial GasD Subsidiary, a member of the Purchaser's Group or Xoserve Limited then no net financial benefit shall be treated as arising.

7 Tax Administration etc.

Administration

7.1 Subject to paragraphs 8 and 9 and subject to and in accordance with the provisions of paragraphs 7.2, 7.3 and 7.4, the parties acknowledge and agree that GasD HoldCo or its duly authorised agents shall:

7.1.1 prepare, submit and deal with (or procure the preparation and submission of and dealing with) all computations and returns relating to Taxation; and

7.1.2 prepare, submit and deal with (or procure the preparation and submission of and dealing with) all claims, elections, surrenders, disclaimers, statements, notices and consents for Taxation purposes; and

7.1.3 deal with all other matters which relate to Taxation including, without limitation, any correspondence, enquiry, dispute, audit, negotiation or settlement involving any Tax Authority,

(all documents referred to in paragraphs 7.1.1, 7.1.2 and 7.1.3 being "**Tax Documents**") in respect of all Tax Periods of each Initial GasD Subsidiary and/or all Transactions of each Initial GasD Subsidiary, in each case in accordance with the Shareholders' Agreement.

7.2 The parties agree that, to the extent that the liability to Taxation, liability under this Schedule, effectiveness of a Degrouping Election or right to payment, set-off or credit under this Schedule, in each case, of a member of the NGHO Group may be affected:

7.2.1 any matters relating to the Tax affairs of the Initial GasD Subsidiaries shall be "material matters";

7.2.2 any Tax Documents shall be material Tax Documents; and

7.2.3 the Seller shall be a "Significant Shareholder",

in each case, for the purposes of clause 6 of the Shareholders' Agreement.

7.3 Notwithstanding clause 6.2.2(iv) of the Shareholders' Agreement, GasD HoldCo shall procure that any reasonable written comments of the Seller are incorporated in relation to the matters and Tax Documents referred to in paragraphs 7.2.1 and 7.2.2 above to the extent that the liability to Taxation, liability under this Schedule, effectiveness of a Degrouping Election or right to payment, set-off or credit under this Schedule, in each case, of a member of the NGHO Group may be affected.

7.4 Subject to paragraph 7.5 below, the Investor and the New GasD Subsidiaries shall procure that GasD OpCo will prepare and submit its Tax returns on the basis that the aggregate tax written down value as at 31 March 2016 of any assets attracting capital allowances that transferred to the Purchaser on Hive Out Completion (the "**TWDV**") is [***] with [***] comprised within the special rate pool and [***] comprised within the general pool.

7.5 It is acknowledged that the TWDV is based on the approach described in the clearance application from NG plc to HMRC dated 25 April 2016 and headed "Potential sale of a majority stake in National Grid's UK gas distribution business – Application for non-

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statutory business clearance – Capital Allowances”. If HMRC determines that the TWDV is greater or less than [***], the Investor and the New GasD Subsidiaries shall procure that GasD OpCo will prepare and submit or amend its Tax returns on the basis of the TWDV determined by HMRC (the “**Revised TWDV**”) and:

7.5.1 where the Revised TWDV is greater than [***], the Purchaser shall pay to the Seller an amount equal to the value of the Taxation that will be saved as a result of the Revised TWDV exceeding [***], taking into account the allocation of the Revised TWDV between the special rate pool and the general pool and the timing of utilisation of the additional Relief (on the assumption that reasonable endeavours will be taken to claim and maximise the availability of such Relief); and

7.5.2 where the Revised TWDV is less than [***], the Seller shall pay to the Purchaser an amount equal to the value of the additional Taxation that will be payable by the GasD Group which would not have been payable but for the Revised TWDV being less that [***], taking into account the allocation of the Revised TWDV between the special rate pool and the general pool and the timing of payment of the Taxation,

save that no amount shall be payable pursuant to paragraph 7.5.1 to the extent that the amount by which the Revised TWDV exceeds [***] relates to expenditure of [***] incurred in the financial year ended 31 March 2016 on computer software (with an estimated net book value as at 31 March 2016 of [***]) in respect of which it is currently expected amortisation under part 8 CTA 2009 has been or will be claimed. In any calculation of amounts payable under this paragraph 7.5, the Vanilla Weighted Average Cost of Capital (as calculated under Ofgem’s most recent Annual Iteration Process at the time of the calculation) for the regulated group shall be used as the discount rate.

7.6 The Seller agrees to cancel, or procure the cancellation of, any existing authority held by any employee or agent of or adviser to the Seller to sign Tax Documents on behalf of any Initial GasD Subsidiary with effect from Closing.

Reasonable Assistance and Access

7.7 The Seller shall procure that GasD HoldCo and its duly authorised agents are (on reasonable notice in writing to the Seller) afforded such other reasonable assistance as may be reasonably required to enable GasD HoldCo to discharge its obligations or exercise its rights under this paragraph 7.

7.8 The Purchaser and GasD HoldCo shall procure that the Seller and its duly authorised agents are (on reasonable notice in writing to the Purchaser) afforded such reasonable access to the books, accounts, personnel, correspondence and documentation of the Initial GasD Subsidiaries and such other reasonable assistance as may be reasonably required to enable the Seller to discharge its obligations or exercise its rights under this paragraph 7 and to enable any member of the NGHO Group to comply with its own Tax obligations or facilitate the management or settlement of its own Tax affairs.

Miscellaneous

7.9 Neither the Purchaser nor any member of the Purchaser’s Group nor any Initial GasD Subsidiary shall be required by this paragraph 7 to take any action which it reasonably considers will require it (or any Initial GasD Subsidiary or any member of the Purchaser’s Group) to engage in fraudulent conduct, conduct involving dishonesty or the commission of, or participation in, any criminal offence or that would involve the taking of any action that is not in compliance with what might reasonably be regarded as proper standards of tax practice.

7.10 This paragraph 7 shall operate without prejudice to the provisions of paragraph 9.

8 Miscellaneous Tax Matters

Value Added Tax

8.1 Without prejudice to Clause 14.10, if for any prescribed accounting period for VAT purposes during which an Initial GasD Subsidiary is a member of the Seller VAT Group there is an excess of allowable input tax over output tax (as those terms are defined in Section 24 VATA 1994) in respect of supplies (including self supplies) made or deemed to have been made by or to or importations or acquisitions made by such Initial GasD Subsidiary up to and including the date on which that Initial GasD Subsidiary is excluded from the Seller VAT group, then to the extent such excess was treated as an asset in the Completion Accounts or such excess arises in respect of a period after Closing, the Seller shall, to the extent not previously paid, pay or procure the payment to the Initial GasD Subsidiary concerned of such excess no later than twenty Business Days after the last day of such accounting period.

8.2 Without prejudice to Clause 14.10, if for any prescribed accounting period for VAT purposes during which an Initial GasD Subsidiary is a member of the Seller VAT Group there is an excess of output tax over allowable input tax (as those terms are defined in Section 24 VATA 1994) in respect of supplies (including self supplies) made or deemed to have been made by or to or importations or acquisitions made by such Initial GasD Subsidiary up to and including the date on which that Initial GasD Subsidiary is excluded from the Seller VAT group, then to the extent provision or reserve was made in respect of such excess in the Completion Accounts or such excess arises in respect of a period after Closing, the Purchaser shall, to the extent not previously paid, pay or procure the payment by the Initial GasD Subsidiary concerned to the Seller or the representative member of the Seller VAT Group or as the Seller may direct, of such excess no later than twenty Business Days after the last day of such accounting period.

8.3 The deeming provisions of Section 43(1) VATA 1994 (other than Section 43(1)(a) VATA 1994) shall be disregarded in determining for the purposes of paragraphs 8.1 and 8.2 what supplies or acquisitions or importations have been made or are deemed to have been made by or to any person.

8.4 The parties to this Schedule undertake that they will on request promptly supply or procure that there is supplied to the other parties all information, particulars and access to and copies of records reasonably relevant to any liability of the parties under paragraphs 8.1 and 8.2.

Degrouping Election

8.5 The Purchaser shall procure that GasD OpCo enters into one or more Degrouping Elections with NGG and/or a member of the NGHO Group (as notified by the Seller to the Purchaser, and in the form(s) provided in writing to the Purchaser by the Seller, in each case at least ten Business Days prior to the expiry of the applicable statutory time limit) within the applicable statutory time limit in respect of all or part of any profit accruing to GasD OpCo as a result of GasD OpCo ceasing to be a member of the NGHO Group for the purposes of corporation tax as it applies in relation to intangible fixed assets.

9 Claims

9.1 If the Purchaser or any Initial GasD Subsidiary becomes aware after Closing of any matter which could give rise to a liability under paragraph 2 or 3 of this Schedule, the Purchaser shall procure that written notice of that matter (setting out, to the extent available, reasonable particulars of the potential liability, the due date for payment and the time limits for any appeal) is given as soon as reasonably practicable to the Seller and in any event within twenty Business Days (but failure to give such notice shall not be a condition to the liability of the Seller under this Schedule). As regards any such matter, notwithstanding the provisions of paragraph 7, either the Seller shall itself deal with the matter or at the request in writing of the Seller the Purchaser shall itself or shall procure that the Initial GasD Subsidiary concerned shall take such action as the Seller may reasonably request to deal with the matter but subject as set out in paragraph 9.2 and paragraph 9.4 and subject, in either case, to the Purchaser and the Initial GasD Subsidiary being indemnified to their reasonable satisfaction by the Seller against all losses (including additional Taxation), costs, damages and expenses which may be incurred as a result.

9.2 Where, pursuant to paragraph 9.1, the Seller deals itself with any matter which could give rise to a liability under paragraph 2 or 3 of this Schedule, the Seller shall procure that:

9.2.1 the Purchaser is kept fully informed of the progress of all matters relating to the Taxation affairs of the relevant Initial GasD Subsidiaries in relation to such matter;

9.2.2 the Purchaser receives copies of, or extracts from, all written correspondence to, or from, any Tax Authority insofar as it is relevant to the matters referred to in paragraph 9.2.1;

9.2.3 the Purchaser receives drafts of any Tax Documents relevant to the matters referred to in paragraph 9.2.1 which are to be submitted. If a time limit applies in relation to the submission of any such Tax Document, the Seller shall ensure that the Purchaser receives the Tax Document no later than twenty Business Days before the expiry of the time limit; and

9.2.4 the Purchaser is consulted fully in relation to the matters referred to in paragraph 9.2.1 above and any reasonable written comments of the Purchaser are taken into account in relation to such matters provided the Purchaser's comments are received no later than ten Business Days after the draft Tax Document has been received by the Purchaser pursuant to paragraph 9.2.1.

9.3 The Purchaser and each Initial GasD Subsidiary shall be at liberty without reference to the Seller to deal with any matter which could give rise to a liability under paragraph 2 or 3 of this Schedule if the Seller delays unreasonably in itself dealing with or seeking to resolve the matter or in giving any such request as is mentioned in paragraph 9.1 above provided that the Purchaser or Initial GasD Subsidiary concerned has notified the Seller in writing of its intention so to deal with the matter and the Seller has not responded within five Business Days with such details as the Purchaser may reasonably require of how the Seller proposes to resolve the matter.

9.4 Neither the Purchaser nor any Initial GasD Subsidiary shall be required by this paragraph 9 to take any action which it reasonably considers will require it (or any member of the Purchaser's Group) to engage in fraudulent conduct, conduct involving dishonesty or the commission of, or participation in, any criminal offence or that would involve the taking of any action that is not in compliance with what might reasonably be regarded as proper standards of tax practice.

9.5 The Purchaser shall procure that the Seller and its duly authorised agents are (on reasonable notice in writing to the Purchaser) afforded such reasonable access to the books, accounts, personnel, correspondence and documentation of the Initial GasD Subsidiaries and such other reasonable assistance as may be reasonably required to enable the Seller to exercise its rights under this paragraph 9 (provided that the Seller bears any reasonably incurred external costs which may be incurred).

9.6 Subject to paragraph 9.3, the Purchaser shall not, and shall procure that no Initial GasD Subsidiary shall, make any admission to any Tax Authority in relation to any matter which could give rise to a liability of the Seller under paragraph 2 or 3 of this Schedule or compromise, dispose of or settle the relevant matter without the written consent of the Seller.

9.7 The preceding provisions of this paragraph 9 shall apply, as they apply to a matter within paragraph 9.1, to any document issued by a Tax Authority from which it appears that any Degrouping Election may not be fully effective or valid and so that:

9.7.1 any reference to a liability under paragraph 2 of this Schedule in this paragraph 9 shall be replaced by a reference to the ineffectiveness or invalidity of such Degrouping Election; and

9.7.2 the rights of the Seller under paragraph 9.1 shall extend to requiring the relevant surrendering company to give new or amended elections on such terms as the Seller thinks fit to the extent necessary to ensure that a liability under paragraph 2 is not created or increased.

10 Effect of Discharge of Claim

For the avoidance of doubt and subject to paragraph 4.1.7 the Seller shall remain liable in accordance with the terms of this Schedule even though any Taxation giving rise to a liability to make a payment under paragraph 2 or 3 of this Schedule is or has been discharged or suffered by an Initial GasD Subsidiary or a member of the Purchaser's Group whether before or after the date of this Schedule and whether by payment or by the loss or utilisation of any Relief.

11 Effect of Waiver, Release etc.

Any liability under this Schedule may in whole or in part be released, compounded or compromised or time or indulgence given by the person to whom the liability is owed in its absolute discretion as regards any of the persons under such liability without in any way prejudicing or affecting its rights against any other or others of those persons under the same or a like liability whether joint and several or otherwise.

Schedule 12
Deed of Adherence

This Deed of Adherence is made on [*date*] by [*GasD HoldCo / GasD PledgeCo / GasD MidCo*], a company incorporated under the laws of England and Wales under registered number [•] and whose registered office is at [•] (the "**New Party**").

Recitals:

(A) [*GasD HoldCo / GasD PledgeCo / GasD MidCo*] has been incorporated in accordance with Schedule 2 of an acquisition agreement made on [•] 2016 between (1) National Grid Holdings One plc and (2) [*Investor*] (the "**Agreement**").

(B) This Deed of Adherence is entered into in compliance with clause [•] of the Agreement.

It is agreed as follows:

1 The New Party confirms that it has been supplied with and has read a copy of the Agreement.

2 The New Party:

2.1 agrees to assume the benefit of the rights; and

2.2 shall observe, perform and be bound by all the obligations and terms of [*GasD HoldCo / GasD PledgeCo / GasD MidCo*] under the Agreement which are to be performed on or after the date of this Deed, to the intent and effect that the New Party shall be deemed with effect from the date of this Deed to be a party to the Agreement (as if named as a party to the Agreement).

3 The New Party warrants to the Seller and the Investor that the statements set out in Schedule 8 are true and accurate as at the date of this Deed.

4 This Deed is made for the benefit of: (a) the original Parties to the Agreement; and (b) any other person or persons who after the date of the Agreement (and whether or not prior to or after the date of this Deed) adhere to the Agreement.

5 The address and fax number of the New Party for the purposes of clause 14.11 of the Agreement are as follows:

Registered office of [***NEW PARTY***]

Email: [•]

Attention: [•]

6 Clause 14.15 of the Agreement shall apply to this Deed as if set out in full herein.

In witness of which this Deed has been signed as a deed on the date stated at the beginning of this Deed.

SIGNED as a DEED by [***NEW PARTY***] acting by [*name of director*] a Director in the presence of:

Witness's signature
Name
Address
Occupation

Schedule 13
Use of National Grid Trade Marks

1 Except as otherwise expressly provided in the Interim Brand Licence and subject to paragraphs 2 and 3, the Investor shall, and the parties shall procure that each member of the GasD Group) shall:

1.1 from the Closing Date, not:

1.1.1 use or display any Names which include (in whole or in part) any National Grid Trade Marks, including any Name:

(i) which makes use of the word GRID; or

(ii) which is colourably the same or similar to the NATIONAL GRID logo (as represented by EU trade mark registration no. 004533089); or

1.1.2 hold itself out as having any current affiliation or other association with any member of the Seller's Group; and

1.2 as soon as reasonably practicable following the Closing Date and in any event within 12 months of the Closing Date, have removed, or otherwise obliterated, all National Grid Trade Marks from all assets and materials owned or used by, or on behalf of, any member of the GasD Group, including any business stationery (including letterhead, business cards, schedules, inventories, agreements, policy documentation, customer agreements, publicity releases and forms), vehicles, machinery, buildings, interior décor items, fixtures and furnishings, displays, signs, informational, promotional or marketing materials, websites, email, computer software and systems. The costs associated with such removal and obliteration shall be borne by the GasD Group.

2 The Seller acknowledges and agrees that:

2.1 each member of the GasD Group is permitted to continue making use of the National Grid Trade Marks (excluding any logos, designs or stylised versions of the National Grid Trade Marks):

2.1.1 when referring to the former names of any member of the GasD Group; and

2.1.2 when accurately describing any products or services as having been originated by any member of the GasD Group or related to the GasD Business prior to Closing; and

2.2 no member of the Investor's Group nor the GasD Group shall be obliged to remove or obliterate any National Grid Trade Marks from:

2.2.1 any executed agreements, or copies thereof, in existence prior to the Closing Date;

2.2.2 any policy documents or other customer agreements, or copies thereof, in existence and issued to customers prior to the Closing Date;

2.2.3 any non-customer-facing documents in existence prior to the Closing Date that are used for internal purposes only; or

2.2.4 any fixture where the National Grid Trade Mark is not visible to the public (which includes any visitor to a GasD Group property) until such time as it is reasonable for such removal or obliteration to be carried out, including as part of ordinary course asset replacement.

3 For the avoidance of doubt, nothing in this Schedule 13 shall restrict GasD OpCo's (or any other member of the GasD Group's) use of any registered trade mark assigned to GasD OpCo under the Assignment of Trade Marks (as defined in the Hive Out Agreement), provided that such registered trade marks are used solely: (i) in relation to the goods and services for which they are registered; and (ii) in the form in which they are depicted in their relevant registrations, and not otherwise varied or modified.

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

Schedule 14
Forecast Capex/Repex

Scheduled Closing Date	Forecast Capex/Repex
31 January 2017	[***]
28 February 2017	[***]
31 March 2017	[***]

The parties agree that the Forecast Capex/Repex for subsequent periods in the financial year commencing on 1 April 2017 will be set with reference to the Initial Budget.

Exhibit 4(b).2

EXECUTION VERSION

Dated 31 March 2017

Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission

NATIONAL GRID HOLDINGS ONE PLC

and

QUADGAS INVESTMENTS BIDCO LIMITED

FURTHER ACQUISITION AGREEMENT

relating to the acquisition of shares in GasD HoldCo (as defined herein)

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone (44-20) 7456 2000
Facsimile (44-20) 7456 2222

Ref L-226975

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

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Further Acquisition Agreement

This Agreement is made as a deed on __31__ March 2017 **between:**

(1) **NATIONAL GRID HOLDINGS ONE PLC** a company incorporated in the United Kingdom with registered number 2367004 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom (the "**Seller**"); and

(2) **QUADGAS INVESTMENTS BIDCO LIMITED** a company incorporated in the United Kingdom with registered number 10487004 and whose registered office is at 18 St Swithin's Lane, London EC4N 8AD and whose former name was Tellsid Investments Limited (the "**Investor**").

Whereas:

(A) On 8 December 2016:

(i) the Seller and the Investor entered into the Acquisition Agreement relating to, amongst other things, the subscription of Shares and the acquisition by GasD MidCo of GasD OpCo and GasD PropCo; and

(ii) the Seller and the Investor entered into a memorandum of understanding relating to the acquisition of Further Shares in GasD HoldCo.

(B) On 10 February 2017, GasD HoldCo was incorporated.

(C) Pursuant to this Agreement the Seller has agreed to sell and the Investor has agreed to purchase:

(i) the Further Shares; and

(ii) the Further Debt.

It is agreed as follows:

1 Interpretation

In this deed (the "**Agreement**"), unless the context otherwise requires, the provisions in this Clause 1 apply:

1.1 Definitions

"**Acquisition Agreement**" means the agreement entered into on 8 December 2016 (as amended from time to time) between the Investor and the Seller (which has or will have subsequently been acceded to by GasD HoldCo, GasD PledgeCo and GasD Midco) relating to, amongst other things, the subscription of Shares and the acquisition by GasD MidCo of GasD OpCo and GasD PropCo;

"**Additional Investment**" has the meaning given to it in Clause 2.3;

"**Agreed Form**" means, in relation to any document, such document in the form agreed between the Seller and the Investor and signed for identification by the Investor's Lawyers and the Seller's Lawyers on the date of the Acquisition Agreement with such alterations as may be agreed in writing between the Seller and the Investor from time to time;

"**Affiliate**" has the meaning given to it in the Shareholders' Agreement;

[***]

"**Business Day**" means a day which is not a Saturday, a Sunday or a public holiday in England;

"**Claim**" means any claim arising out of or in connection with any Transaction Document excluding: (i) any claim for breach of the Seller's Warranties; or (ii) any Cornerstone Claim;

"**Closing**" means the completion of the acquisition of GasD OpCo and GasD PropCo by GasD MidCo pursuant to the Acquisition Agreement;

"**Closing Date**" means the date on which Closing takes place;

"**Competent Authority**" means: (i) any person (whether autonomous or not) having legal and/or regulatory authority and/or enforcement powers, including Gas and Electricity Markets Authority, Office of Gas and Electricity Markets, the Health and Safety Executive, the European Commission and the Competition and Markets Authority; (ii) any court of law or tribunal in any jurisdiction; and/or (iii) any Tax Authority;

"**Confidentiality Agreements**" means each of the confidentiality agreements pursuant to which NG plc made available to the recipient named therein certain confidential information relating to the Seller's Group entered into with: (i) Macquarie Infrastructure and Real Assets (Europe) Limited dated 28 July 2016 (as amended); (ii) Dalmore Infrastructure Investments 2 Limited Partnership dated 1 August 2016 (as amended); (iii) Dalmore Infrastructure Investments 2 Limited Partnership dated 24 August 2016 (as amended); (iv) Allianz Capital Partners GmbH, London Branch dated 27 July 2016; (v) Amber Infrastructure Limited dated 25 July 2016 (as amended); (vi) CIC Capital Corporation dated 4 August 2016 (as amended); and (vii) Hermes GPE LLP dated 4 August 2016 (as amended) and "**Confidentiality Agreement**" means any one of them;

"**Cornerstone Claim**" means any claim for a breach of the Seller's obligations under Clauses 2.1 and 2.2;

"**CTA 2010**" means the Corporation Tax Act 2010;

"**Debt**" means the principal amount of any loans, borrowings or indebtedness (together with any accrued interest) provided to GasD HoldCo by a Shareholder, its Affiliates or any Investor Shareholder Affiliate, including any new Debt contributed by any of the Shareholders between Closing and Further Closing, but shall exclude any loans, borrowings or indebtedness provided to GasD HoldCo in the ordinary course of business which is not in connection with such Shareholder's holding of Shares;

"**Debt Capitalisation**" means the capitalisation of Debt pursuant to the Post-Closing Implementation Steps;

"**Debt Capitalisation Shares**" means any Shares issued as a result of the Debt Capitalisation (including any such Shares as consolidated, subdivided or redesignated on a non-dilutive basis);

"**Distribution Amount**" means the total amount of any (i) dividends, or other distribution of profits or assets (including any distribution as defined in Part 23 of the CTA 2010), actually paid or declared but not yet paid in respect of the Shares; and (ii) any interest on, and any principal of, any Debt actually paid or repaid, in each case prior to Further Closing;

"**Encumbrance**" means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, retention of title, right of pre-emption, right of first refusal or

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other third party right or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing;

"**Escalation Factor**" means:

[***]

"**Further Acquisition Payment**" means the consideration to be paid by the Investor to the Seller for the Further Sale Assets, being a sum equal to:

$$\{(\text{Investor Loan Amount x } \frac{14}{61}) \text{ minus (Distribution Amount x } \frac{14}{100})\}$$

x

the Escalation Factor

"**Further Closing**" means the completion of the sale and purchase of the Further Sale Assets pursuant to Clause 6;

"**Further Closing Date**" means the date on which the Further Closing takes place;

"**Further Debt**" means a portion of the Debt equal to the:

$$\text{Seller Debt x } \frac{14}{39}$$

"**Further Debt Consideration**" has the meaning given to it in Clause 3.1.1;

"**Further Sale Assets**" means the Further Shares and the Further Debt;

"**Further Share Consideration**" has the meaning given to it in Clause 3.1.2;

"**Further Shares**" means the aggregate of:

(i) 7,000 Shares or, if different as a result of a non-dilutive consolidation, sub-division or other redesignation of the Shares (but excluding as a result of any issue of Debt Capitalisation Shares), such other number of shares in the capital of GasD HoldCo as carry the same proportion of voting rights and rights to participate in the profits and assets of GasD HoldCo as an aggregate of 7,000 Shares have at Closing; and

(ii) 14 per cent. of any Debt Capitalisation Shares;

"**GasD Group**" means GasD HoldCo and any GasD Group Companies from time to time;

"**GasD Group Companies**" means GasD HoldCo together with any other subsidiaries of GasD HoldCo from time to time and "**GasD Group Company**" means any one of them;

"**GasD HoldCo**" means Quadgas HoldCo Limited, a company incorporated in the United Kingdom with registered number 10614254 and whose registered office is at 1-3 Strand, London, WC2N 5EH, United Kingdom;

"**GasD MidCo**" means Quadgas MidCo Limited, a company incorporated in the United Kingdom with registered number 10615396 and whose registered office is at 1-3 Strand, London, WC2N 5EH, United Kingdom;

"**GasD OpCo**" means National Grid Gas Distribution Limited, a company incorporated in the United Kingdom with registered number 10080864 and whose registered office is at 1-3 Strand, London, WC2N 5EH, United Kingdom;

“**GasD PledgeCo**” means Quadgas PledgeCo Limited, a company incorporated in the United Kingdom with registered number 10614954 and whose registered office is at 1-3 Strand, London, WC2N 5EH, United Kingdom;

“**GasD PropCo**” means Gas Distribution Property Holdings Limited, a company incorporated in the United Kingdom with registered number 10080921 and whose registered office is at 1-3 Strand, London, WC2N 5EH, United Kingdom;

“**Interest**” has the meaning given to it in the Shareholders’ Agreement;

“**Investor Loan Amount**” has the meaning given to it in the Acquisition Agreement, being the amount drawn down at Closing under the loan agreement entered into between the Investor and GasD HoldCo on the Closing Date (as adjusted pursuant to clause 7.3.3 of the Acquisition Agreement) excluding, for the avoidance of doubt, any other drawdowns or repayment of such loan;

“**Investor Shareholder Affiliate**” has the meaning given to it in the Shareholders’ Agreement;

“**Investor’s Group**” means the Investor and its subsidiaries from time to time;

“**Investor’s Lawyers**” means Clifford Chance LLP of 10 Upper Bank Street London, E14 5JJ;

“**Laws**” means the laws and regulations applicable to any member of the GasD Group or any Shareholder (as appropriate) including, where applicable, the rules of any stock exchange on which the securities of a Shareholder are listed or other governmental or regulatory body to which a Shareholder is subject;

“**LIBOR**” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for pounds Sterling for the relevant period displayed on page LIBOR01 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate);

“**Long Stop Date**” means 31 January 2020;

“**Losses**” means all losses, liabilities (including to Tax), costs (including reasonably incurred legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands, other than VAT that is recoverable;

“**NG plc**” means National Grid plc, a company incorporated in the United Kingdom with registered number 4031152 and whose registered office is at 1-3 Strand, London WC2N 5EH, United Kingdom;

“**parties**” means the parties to this Agreement from time to time, and “**party**” means any one of them;

“**Permitted Regulatory Condition**” means any bona fide mandatory and suspensory material consent, clearance, approval or permission (including, without limitation, any mandatory and suspensory regulatory or anti-trust approvals) necessary to enable the Seller to be able to complete a transfer of the Further Sale Assets to the Investor under: (a) the rules or regulations of any stock exchange on which the Investor, the Seller or any of their Affiliates is quoted; or (b) the rules or regulations of any governmental, statutory or regulatory body in those jurisdictions where the Seller, the Investor, GasD HoldCo or any of their Affiliates carries on business;

"**Post-Closing Implementation Steps**" means the reorganisation steps to be taken in connection with the reorganisation of the GasD Group following Closing in accordance with steps 15 to 17 (inclusive) of the document entitled "Project Piccadilly Summarised Structuring Steps" dated 8 December 2016 in the Agreed Form;

"**Purchase Notice**" has the meaning given to it in Clause 4.2;

"**Relief**" includes any right to repayment of Taxation from a Tax Authority and any relief, loss, allowance, set-off or credit in respect of Taxation and any deduction in computing or against profits for Taxation purposes;

"**SDRT**" means Stamp Duty Reserve Tax;

"**Sell Notice**" has the meaning given to it in Clause 4.1;

"**Seller Debt**" means any Debt owed by GasD HoldCo to the Seller and/or its Affiliates immediately following the Debt Capitalisation and any new Debt contributed by the Seller and/or its Affiliates between Closing and Further Closing, reduced by the amount of any principal repayment made by GasD HoldCo prior to Further Closing;

"**Seller's Group**" means the Seller and its subsidiaries from time to time excluding, for the avoidance of doubt, the GasD Group from the Closing Date;

"**Seller's Lawyers**" means Linklaters LLP of One Silk Street, London EC2Y 8HQ, United Kingdom;

"**Seller's Warranties**" means the warranties given by the Seller set out in Schedule 2, and "**Seller's Warranty**" means any one of them;

"**Shareholder**" has the meaning given to it in the Shareholders' Agreement;

"**Shareholders' Agreement**" means the shareholders' agreement to be entered into on the Closing Date between the Seller, the Investor, GasD HoldCo, GasD OpCo and certain other members of the GasD Group pursuant to the Acquisition Agreement;

"**Shares**" means the ordinary shares of £1.00 each in the capital of GasD HoldCo;

"**Surviving Clauses**" means Clauses 1, 5.4, 8 and 9.2 to 9.14, and "**Surviving Clause**" means any one of them;

"**Tax Authority**" means any taxing or other authority competent to impose any liability in respect of Taxation or responsible for the administration, assessment and/or collection of Taxation or enforcement of any law in relation to Taxation;

"**Taxation**" or "**Tax**" means all forms of taxation whether direct or indirect and whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or other reference and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions rates and levies (including social security contributions and other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any person and all penalties, charges, costs and interest relating thereto;

"**Transaction**" means the proposed sale of the Further Sale Assets by the Seller to the Investor pursuant to the terms of this Agreement;

"**Transaction Documents**" means this Agreement and all agreements entered into pursuant to this Agreement, and "**Transaction Document**" means any one of them;

"**Transfer**" has the meaning given to it in the Shareholders' Agreement; and

"**VAT**" means within the European Union such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and outside the European Union any similar Taxation levied by reference to added value or sales.

1.2 Singular, plural, gender

References to one gender include all genders and references to the singular include the plural and vice versa.

1.3 References to persons and companies

References to:

1.3.1 a person include any company, partnership or unincorporated association (whether or not having separate legal personality); and

1.3.2 a company include any company, corporation or body corporate, wherever incorporated.

1.4 References to subsidiaries and holding companies

The words "holding company", "parent undertaking", "subsidiary" and "subsidiary undertaking" shall have the same meaning in this Agreement as their respective definitions in the Companies Act 2006.

1.5 Connected persons

A person shall be deemed to be connected with another if that person is connected with such other within the meaning of Section 1122 of CTA 2010.

1.6 Schedules etc.

References to this Agreement shall include any Recitals and Schedules to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to paragraphs and Parts are to paragraphs and Parts of the Schedules.

1.7 Headings

Headings shall be ignored in interpreting this Agreement.

1.8 Reference to documents

References to any document (including this Agreement), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

1.9 Modification etc. of statutes

References to a statute or statutory provision include that statute or provision as from time to time modified or re-enacted or consolidated whether before or after the date of this Agreement so far as such modification or re-enactment or consolidation applies or is capable of applying to any transactions entered into in accordance with this Agreement provided that nothing in this Clause 1.9 shall operate to increase the liability of any party beyond that which would have existed had this Clause been omitted.

1.10 Information

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

1.11 Legal terms

References to any English legal term shall, in respect of any jurisdiction other than England, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

1.12 Non-limiting effect of words

The words "including", "include", "in particular" and words of similar effect shall not be deemed to limit the general effect of the words that precede them.

1.13 Extent of obligation to "procure" or "ensure"

If:

1.13.1 a party (the "**Obligor**") is obliged under any provision of this Agreement to "procure" or "ensure" that another person performs (or refrains from performing) any act; and

1.13.2 the Obligor does not Control (as that term is defined in the Shareholders' Agreement) the other person,

then the Obligor's obligations under that provision shall be limited to:

1.13.3 if the Obligor holds any voting securities in the capital of the other party, exercising all voting rights attaching to those securities; and

1.13.4 if the Obligor is party to any agreement relating to the management and control of the other person (including, in the case of the GasD Group, the Shareholders' Agreement), exercising all rights available to it under such agreement,

in each case for the purposes set out in the relevant provision of this Agreement.

1.14 Payments

All payments to be made pursuant to or in connection with this Agreement shall be made in pounds Sterling, being the lawful currency of the United Kingdom, unless otherwise indicated.

1.15 Effective time

Other than in respect of the Surviving Clauses: (a) the obligations of the parties hereunder are conditional upon Closing; and (b) no party shall have any liability to the other party under this Agreement until and unless Closing occurs.

2 Acquisition of the Further Sale Assets

2.1 Further Shares

2.1.1 On and subject to the terms of this Agreement the Seller shall sell, and the Investor shall purchase, the Further Shares.

2.1.2 The Further Shares shall be sold by the Seller with full title guarantee, free from any Encumbrances and together with all rights and advantages attaching to them as at Further Closing (including the right to receive all dividends or distributions declared in respect of such Further Shares on or after Further Closing).

2.1.3 All of the Further Shares (and not some only) shall be acquired by the Investor.

2.2 Further Debt

On and subject to the terms of this Agreement the Seller shall, or shall procure that any of its Affiliates shall, assign to the Investor the Further Debt (including any accrued but unpaid interest).

2.3 Additional Investment

If any Shares (other than the Debt Capitalisation Shares) are to be issued for value or new Debt is to be contributed by any of the Shareholders between Closing and Further Closing (the "**Additional Investment**"), the parties undertake, following the date of this Agreement and prior to Further Closing, to enter into good faith discussions to agree, prior to such Additional Investment being completed, such amendments to this Agreement as the parties deem necessary or appropriate to reflect the impact of (and any further consideration for) the Additional Investment, it being the intention of the parties to ensure that under this Agreement the Investor will acquire from the Seller: (i) 14 per cent. of the entire issued share capital of GasD HoldCo; and (ii) a portion equal to 14/39 of any Debt owed by GasD HoldCo to the Seller and/or its Affiliates. For the avoidance of doubt, no amendment made to this Agreement pursuant to this Clause 2.3 shall result in a reduction of the amount of the Further Acquisition Payment to be paid for the Further Sale Assets (as defined before giving effect to such amendment to this Agreement in respect of the Additional Investment) in accordance with this Agreement.

2.4 Seller undertaking

The Seller undertakes that it will not:

2.4.1 Transfer any Interest in any Shares, including any Debt Capitalisation Shares or sell, assign, transfer or otherwise dispose of, or grant any option over, or create or permit to subsist any Encumbrance over Debt if and to the extent that such Transfer or such sale, transfer, disposal, grant or Encumbrance (as the case may be) would prevent the Seller from satisfying its obligations under this Agreement consequent upon the giving of a Sell Notice or a Purchase Notice (as the case may be); or

2.4.2 issue an Offer Notice prior to the expiry of the NGHO Lock-up Period (as each such term is defined in the Shareholders' Agreement).

3 Consideration

3.1 Amount

3.1.1 The amount of the consideration for the assignment of the Further Debt under this Agreement shall be an amount equal to the sum of the outstanding principal of, and accrued but unpaid interest on, such Further Debt as at the Further Closing Date (the "Further Debt Consideration").

3.1.2 The amount of the consideration for the purchase of the Further Shares under this Agreement shall be an amount equal to:

(i) the Further Acquisition Payment; *less*

(ii) the Further Debt Consideration,

(the "**Further Share Consideration**").

3.2 Payment of Further Acquisition Payment

The Further Acquisition Payment shall be paid by way of cash payment pursuant to Clause 6.3.

3.3 Adjustment to the Further Share Consideration

If any payment is made by the Seller to the Investor in respect of any claim for any breach of this Agreement (or any agreement entered into under this Agreement), the payment shall be treated so far as lawfully possible as an adjustment of the Further Share Consideration that is paid by the Investor on the Further Closing Date for the Further Shares under this Agreement and the Further Share Consideration shall be deemed to have been reduced by the amount of such payment.

4 Sell Notice and Purchase Notice

4.1 Sell Notice

4.1.1 In consideration of the promise by the Investor, if demanded, to pay £1 to the Seller with effect from the date of this Agreement, the Seller may require the Investor to acquire the Further Sale Assets on the terms of this Agreement by giving the Investor not less than six months' prior written notice substantially in the form set out in Schedule 6 (the "**Sell Notice**").

4.1.2 The Sell Notice shall specify the Further Closing Date which shall be a Business Day in the period between 1 March 2019 and 30 June 2019 (inclusive), or such other time period as the parties may agree in writing.

4.1.3 The Sell Notice, once given by the Seller, may not be revoked without the written consent of the Investor.

4.1.4 If the Seller has not given a Sell Notice to the Investor by 5.00 p.m. on 31 December 2018 in accordance with Clause 4.1 then Clause 4.1.1 shall terminate and the Seller shall cease to have any further rights thereunder.

4.2 Purchase Notice

4.2.1 In consideration of the promise by the Seller, if demanded, to pay £1 to the Investor with effect from the date of this Agreement, if the Seller has not given a Sell Notice to the Investor by 5.00 p.m. on 31 December 2018 in accordance with Clause 4.1, the Investor may at any time in the period between 1 January 2019 and 30 April 2019 require the Seller to sell the Further Sale Assets on the terms of this Agreement by giving not less than six months' prior written notice substantially in the form set out in Schedule 7 (the "**Purchase Notice**").

4.2.2 The Purchase Notice shall specify the Further Closing Date which shall be a Business Day in the period between 1 July 2019 and 31 October 2019 (inclusive), or such other time period as the parties may agree in writing.

4.2.3 The Purchase Notice, once given by the Investor, may not be revoked without the written consent of the Seller.

4.2.4 If: (a) if the Seller has not given a Sell Notice to the Investor by 5.00 p.m. on 31 December 2018 in accordance with Clause 4.1; and (b) the Purchaser has not given a Purchase Notice to the Seller in accordance with Clause 4.2.1 by 5.00 p.m. on 30 April 2019, then this Agreement (other than the Surviving Clauses) shall automatically terminate with immediate effect at 5.00 p.m. on 30 April 2019 and neither the Seller nor the Investor shall have any Claim against the other under it, save in relation to any breach that occurred prior to the time of such termination.

4.3 No obligation to Serve Sell Notice or Purchase Notice

This Agreement does not impose any obligation on:

4.3.1 the Seller to serve a Sell Notice; or

4.3.2 the Investor to serve a Purchase Notice.

5 Conditions

5.1 Permitted Regulatory Conditions

The Investor and the Seller shall, subject to Clause 5.2.3, have the right to require that Further Closing is conditional on the satisfaction of any Permitted Regulatory Conditions or adjustments to existing Permitted Regulatory Conditions, but only to the extent the parties agree (acting reasonably) that such permitted Regulatory Conditions (or adjustments to the same) are necessary to be able to complete lawfully the transfer of the Further Sale Assets. This right can be exercised by the party:

5.1.1 delivering a Sell Notice or a Purchase Notice, by identifying any Permitted Regulatory Condition in its notice; or

5.1.2 receiving a Sell Notice or a Purchase Notice, by delivering written notice to the other party of any Permitted Regulatory Condition within ten (10) Business Days of its receipt of such notice.

5.2 Responsibility for satisfaction

5.2.1 If either the Seller or the Investor exercises its rights under Clause 5.1, then each of the Seller and the Investor shall use all reasonable endeavours and take all steps necessary to ensure the satisfaction of any Permitted Regulatory Condition applying to it as soon as reasonably practicable after the delivery of a Sell Notice or a Purchase Notice (as the case may be) and in any event so as to enable Further Closing to occur before the Long Stop Date, which shall include, but not be limited to, each of the Seller and the Investor promptly providing such information in relation to itself and the Seller's Group or the Investor's Group (respectively) and any explanation or clarification of or further information in relation to any aspect of any Permitted Regulatory Condition as may be reasonably necessary to procure the satisfaction of such condition before the Long Stop Date provided that this shall not require either party to take such action which would be likely to have such a detrimental effect on the current or future development of the business of that party that it would be unreasonable to expect that party to take it.

5.2.2 Each of the Seller and the Investor shall give notice to the other of the satisfaction of any relevant Permitted Regulatory Condition applying to it within two Business Days of becoming aware of the same.

5.2.3 Any party to whom a Permitted Regulatory Condition applies may, in its sole discretion, elect to waive, by notice in writing to the other Parties, compliance with that requirement insofar as it relates to itself.

5.3 Process for satisfaction

5.3.1 Without prejudice to Clause 5.2, the Seller and the Investor agree that all requests and enquiries from any government, governmental, supranational or trade agency, court or other regulatory body which relate to the satisfaction of any Permitted Regulatory Condition shall be dealt with by the Seller and the Investor in consultation with each other and the Seller and the Investor shall promptly co-operate with and provide all necessary information and assistance reasonably required by such government, agency, court or body upon being requested to do so by the other.

5.3.2 The Seller and the Investor undertake to one another to prepare and submit any necessary notifications to the relevant Competent Authority which are necessary to obtain the relevant clearance for a Permitted Regulatory Condition as soon as reasonably practicable after the date of delivery of a Sell Notice or a Purchase Notice.

5.3.3 The Seller and the Investor undertake to one another to keep one another fully informed as to progress towards satisfaction of any Permitted Regulatory Condition applying to it and each of them shall provide the other or their nominated advisors with draft copies of the initial submissions and all material communications to the Competent Authority in relation to satisfying such condition, allowing the other party a reasonable opportunity to provide comments on such submissions and communications before they are submitted (other than any part of such documentation and information that contains commercially sensitive information relating to the business of the Investor’s Group or the Seller’s Group (as the case may be) and/or is otherwise confidential in the reasonable assessment of the Investor or the Seller (respectively)).

5.4 Non-satisfaction/waiver

If any Permitted Regulatory Condition is not satisfied or waived by 5.00 p.m. on the Long Stop Date the Investor or the Seller may, in its sole discretion, terminate this Agreement (other than the Surviving Clauses) and neither the Seller nor the Investor shall have any Claim against the other under it, save for any Claim arising from breach of any obligation contained in Clause 5.2.

6 Further Closing

6.1 Date and place

Subject to Clause 5, Further Closing shall take place at 10.00 a.m. at the offices of the Seller’s Lawyers on:

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

6.1.1 the date set out in the Sell Notice; or, if applicable

6.1.2 the date set out in the Purchase Notice; or

6.1.3 if the fulfilment or waiver of the requirement to satisfy any Permitted Regulatory Conditions (as contemplated in Clause 5) has not occurred prior to the Further Closing Date (being such date as set out in a Sell Notice or Purchase Notice (as the case may be)), on the date being 15 Business Days following fulfilment or waiver of any Permitted Regulatory Conditions provided such date is not later than the Long Stop Date; or

6.1.4 at such other location and at such other time or on such other date as may be agreed in writing between the Investor and the Seller.

6.2 Further Closing events

6.2.1 On Further Closing:

(i) the Seller shall deliver or take (or cause to be delivered or taken) the documents and actions listed in Part A of Schedule 1; and

(ii) the Investor shall deliver or take (or cause to be delivered or taken) the documents and actions listed in Part B of Schedule 1.

6.2.2 The Seller may waive some or all of the obligations of the Investor as set out in Part B of Schedule 1 and the Investor may waive some or all of the obligations of the Seller as set out in Part A of Schedule 1.

6.3 Payment on Further Closing

At Further Closing, the Investor shall pay the Further Acquisition Payment in cleared funds to the Seller.

6.4 [***]

6.5 Breach of Further Closing obligations

If a party fails to comply with any material obligation in Clauses 6.2, 6.3, 6.4 or Schedule 1, the Investor, in the case of non-compliance by the Seller, or the Seller, in the case of non-compliance by the Investor, shall be entitled (without prejudice to the right to claim damages or other compensation) by written notice to the other served on the Further Closing Date:

6.5.1 provided that Further Closing has been deferred under Clause 6.5.3 by the party serving notice hereunder on not less than two occasions, to terminate this Agreement (other than the Surviving Clauses) without liability on their part;

6.5.2 to effect Further Closing so far as practicable having regard to the defaults which have occurred; or

6.5.3 to fix a new date for Further Closing in which case the provisions of Schedule 1 shall apply to Further Closing as so deferred.

7 Warranties

7.1 The Seller's Warranties

The Seller warrants to the Investor that:

7.1.1 the statements set out in Schedule 2 are true and accurate as of the date of this Agreement; and

7.1.2 the statements set out in Schedule 2 will be true and accurate at Further Closing as if they had been repeated at Further Closing.

7.2 The Investor's warranties

The Investor warrants to the Seller that:

7.2.1 the statements set out in Schedule 3 are true and accurate as of the date of this Agreement; and

7.2.2 the statements set out in Schedule 3 will be true and accurate at Further Closing as if they had been repeated at Further Closing.

8 Confidentiality

8.1 Announcements

Until the earlier of Further Closing and the Long Stop Date, no announcement, communication or circular in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of the Seller's Group or any member of the Investor's Group or any GasD Group Company without the prior written approval of the Seller and the Investor. This shall not affect any announcement, communication, or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of either party or its holding company are listed, but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other party (or shall procure that its holding company consults with the other party) insofar as is reasonably practicable before complying with such an obligation.

8.2 Confidentiality

8.2.1 Subject to Clauses 8.1 and 8.2.2, each of the Seller and the Investor shall treat as strictly confidential and not disclose or use any confidential information received or obtained as a result of entering into this Agreement (or any agreement entered into pursuant to this Agreement) which relates to:

(i) the existence and the provisions of this Agreement and of any agreement entered into pursuant to this Agreement; or

(ii) the negotiations relating to this Agreement (and any such other agreements);

(iii) (in the case of the Seller) any information relating to the business, financial or other affairs (including future plans and targets) of the Investor's Group; or

(iv) (in the case of the Investor) any information relating to the business, financial or other affairs (including future plans and targets) of the Seller's Group as constituted after Further Closing.

8.2.2 Clause 8.2.1 shall not prohibit disclosure or use of any information if and to the extent:

(i) the disclosure or use is required by the Laws, any governmental or regulatory body or any stock exchange on which the shares of a party or its holding company are listed (including where this is required as part of any actual or potential offering, placing and/or sale of securities of any member of the Seller's Group or the Investor's Group);

(ii) the disclosure or use is required to vest the full benefit of this Agreement in the Seller or the Investor;

(iii) the disclosure or use is required for the purpose of any judicial proceedings arising out of this Agreement or any other Transaction Document;

(iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party or any other entity with which it is grouped for Tax purposes;

(v) the disclosure is made to a party to whom assignment is permitted under Clause 9.3.2 on terms that such assignee undertakes to comply with the provisions of Clause 8.2.1 in respect of such information as if it were a party to the Agreement;

(vi) the disclosure is made to professional advisers of either party on terms that such professional advisers undertake to comply with the provisions of Clause 8.2.1 in respect of such information as if they were a party to this Agreement;

(vii) the information is or becomes publicly available (other than by breach of a Confidentiality Agreement, the Acquisition Agreement, the Shareholders' Agreement or of this Agreement);

(viii) the other party has given prior written approval to the disclosure or use;

(ix) permitted by the Shareholders' Agreement; or

(x) the information is independently developed after Further Closing,

provided that prior to disclosure or use of any information pursuant to Clause 8.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, consult with the other party insofar as is reasonably practicable before making such disclosure or use.

9 Other Provisions

9.1 Further assurances

Each of the parties shall, and shall use reasonable endeavours to procure that any necessary third party shall, from time to time execute such documents and perform such acts and things as either of them may reasonably require to give the other the full benefit of this Agreement.

9.2 Whole agreement

9.2.1 This Agreement, the Acquisition Agreement and the Shareholders' Agreement contain the whole agreement between the parties relating to the subject matter of this Agreement to the exclusion of any terms implied by law which may be excluded by contract and supersede any previous written or oral agreement between the Seller and the Investor in relation to the Transaction.

9.2.2 Each party agrees and acknowledges that, in entering into this Agreement, it is not relying on any representation, warranty or undertaking not expressly incorporated into it.

9.2.3 Each party agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement and each of the Seller and the Investor waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

9.2.4 No party shall be entitled to rescind or terminate this Agreement (whether before or after Further Closing) for breach of any representation, warranty or undertaking set out in this Agreement, other than pursuant to any such rights which arise in respect of fraud.

9.2.5 Nothing in this Clause 9.2 excludes or limits any liability for fraud.

9.3 Assignment

9.3.1 Except as permitted by Clause 9.3.2 or Clause 9.3.3, no party may without the prior written consent of the other party assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Agreement.

9.3.2 The Seller may without the consent of the Investor assign to a member of the Seller's Group the benefit of the whole or any part of this Agreement provided that:

(i) if the assignee ceases to be a member of the Seller's Group, it shall, before ceasing to be so, assign the benefit so far as assigned to it back to that party or assign the benefit to another member of the Seller's Group, as the case may be; and

(ii) the assignee shall not be entitled to receive under this Agreement any greater amount than that to which the Seller would have been entitled.

9.3.3 The Investor may at any time assign by way of security or grant any charge or other security interest over, all or any part of the benefit of, or its rights or benefits under, this Agreement and/or any other Transaction Document to any person who has agreed at any time to provide finance to the Investor or any other member of the GasD Group and/or to any agent or trustee of such person, provided that, where the Investor or any member of the GasD Group assigns the benefit of, or grants any charge or other security interest over, this Agreement and/or any other Transaction Document in whole or in part to any other person, the liabilities of the Seller under this Agreement, or any other Transaction Document so assigned, to the Investor or the relevant member of the GasD Group and the assignee(s) (taken together) shall be no greater than such liabilities would have been had the assignment not occurred.

9.4 Third party rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of, or enjoy any benefit under, this Agreement.

9.5 Variation

No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.

9.6 Method of payment and set off

9.6.1 Any payments pursuant to this Agreement shall be made in full, without any set off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed).

9.6.2 Any payments pursuant to this Agreement shall be effected by crediting for same day value the account specified by the Seller or the Investor (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.

9.6.3 Payment of a sum in accordance with this Clause 9.6 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

9.7 Costs

9.7.1 The Seller shall bear all costs incurred by it and the Seller's Group in connection with the preparation, negotiation and entry into of this Agreement and the sale of the Further Sale Assets.

9.7.2 The Investor shall bear all such costs incurred by it in connection with the preparation, negotiation and entry into of this Agreement and the purchase of the Further Sale Assets.

9.8 Stamp Duty and Transfer Taxes

The Investor shall bear the cost of all stamp duty, SDRT and all registration and transfer taxes and duties or their equivalents (and, in each case, any interest thereon or penalty in respect thereof) in all jurisdictions where such fees, taxes and duties are payable as a result of the sale and purchase of the Further Sale Assets. The Investor shall be responsible for arranging the payment of such stamp duty, SDRT and all other such fees, taxes and duties, including fulfilling any administrative or reporting obligation imposed by the jurisdiction in question in connection with such payment. The Investor shall indemnify the Seller or any other member of the Seller's Group against any Losses suffered by the Seller or member of the Seller's Group as a result of the Investor failing to comply with its obligations under this Clause 9.8.

9.9 Interest

If a party defaults in the payment when due of any sum payable under this Agreement, its liability shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (after as well as before judgment) at a rate per annum of 2 per cent. above LIBOR. Such interest shall accrue from day to day.

9.10 VAT

9.10.1 Where under the terms of this Agreement one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or the representative member of any VAT group of which it forms part, subject to that person or representative member using reasonable endeavours to recover such amount of VAT as may be practicable.

9.10.2 If any payment under this Agreement constitutes the consideration for a taxable supply for VAT purposes, then: (i) the supplier shall provide to the payer a valid VAT invoice; and (ii) except where the reverse charge procedure applies, and subject to the provision of a valid VAT invoice in accordance with (i), in addition to that payment the payer shall pay any VAT due.

9.11 Notices

9.11.1 Any notice or other communication in connection with this Agreement (each, a "**Notice**") shall be:

(i) in writing; and

(ii) delivered by hand, email, recorded or special delivery or courier.

9.11.2 A Notice to the Seller shall be sent to the following address, or such other person or address as the Seller may notify to the Investor from time to time:

NATIONAL GRID HOLDINGS ONE PLC

Registered office of National Grid Holdings One plc from time to time

Email: [***]

Attention: Group General Counsel and Company Secretary

With a copy by email to:

Email: [***]

9.11.3 A Notice to the Investor shall be sent to the following address, or such other person or address as the Investor may notify to the Seller from time to time:

QUADGAS INVESTMENTS BIDCO LIMITED

18 St Swithin's Lane London EC4N 8AD

Attention: The Directors

With a copy by email to:

Email: [***]

9.11.4 A Notice shall be effective upon receipt and shall be deemed to have been received:

(i) at 9.00 a.m. on the second Business Day following the date of posting, in the case of recorded delivery;

(ii) at the time of delivery, if delivered by hand or courier; or

(iii) at the time of sending, if sent by email, provided that receipt shall not occur if the sender receives an automated message indicating that the email has not been delivered to the recipient.

9.12 Invalidity

9.12.1 If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.

9.12.2 To the extent it is not possible to delete or modify the provision, in whole or in part, under Clause 9.12.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the legality, validity and enforceability of the remainder of this Agreement shall, subject to any deletion or modification made under Clause 9.12.1, not be affected.

9.13 Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. The parties may enter into this Agreement by executing any such counterpart.

9.14 Governing law and submission to jurisdiction

9.14.1 This Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Agreement and such documents shall be governed by English law.

9.14.2 Each of the Seller and the Investor irrevocably agrees that the courts of England are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the documents to be entered into pursuant to it and that accordingly any proceedings arising out of or in connection with this Agreement and the documents to be entered into pursuant to it shall be brought in such courts. Each of the Seller and the Investor irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

9.15 Compliance with anti-bribery and anti-corruption laws

9.15.1 Each party hereby warrants, represents and undertakes to each other party hereto that, in relation to the negotiation, conclusion and performance of this Agreement:

(i) neither it nor any of its Affiliates, or any of its or their respective directors, officers, employees and authorized agents, has conducted any act in violation of applicable anti-bribery laws; and

(ii) it shall promptly notify each other party if it becomes aware of or has specific suspicions that any corruption or bribery occurred.

In witness whereof this Agreement has been duly executed and delivered as a **deed** on the date first stated above.

SIGNED as a DEED by Christopher Waters on behalf of **NATIONAL GRID HOLDINGS ONE PLC**:	/s/ Christopher Waters

In the presence of:

/s/ Gabrielle Smith
Name: Gabrielle Smith

Address: 1-3 Strand
London WC2N 5EH

Occupation: Solicitor

SIGNED as a DEED by **QUADGAS INVESTMENTS BIDCO LIMITED** acting by

Martin Bradley a Director	/s/ Martin Bradley
Peter Hofbauer a Director	/s/ Peter Hofbauer

Schedule 1
Further Closing Obligations
(Clause 6.2)

Part A: Seller's Obligations

On Further Closing, the Seller shall deliver or make available to the Investor the following:

(i) duly executed instrument(s) for the transfer of the Further Shares;

(ii) duly executed instrument(s) for the assignment of the Further Debt;

(iii) a power of attorney in such form and in favour of such person as the Investor may nominate to enable the Investor to exercise all rights of ownership over the Further Shares, including without limitation, voting rights;

(iv) the share certificates representing the Further Shares; and

(v) evidence that the Seller is authorised to execute this Agreement and each of the Transaction Documents to be executed by the Seller.

Part B: Investor's Obligations

On Further Closing, the Investor shall deliver or make available to the Seller evidence that the Investor is authorised to execute this Agreement and any other Transaction Document due to be executed by the Investor.

Schedule 2
Seller's Warranties
(Clause 7.1)

1 Further Shares

1.1 The Seller is the sole legal and beneficial owner of the Further Shares and has the right to exercise all voting and other rights over the Further Shares.

1.2 The Further Shares have been properly and validly issued and allotted, are fully paid or credited as fully paid and free from all Encumbrances.

1.3 No person has the right (whether exercisable now or in the future and whether contingent or not) to call for the allotment, conversion, issue, registration, sale or transfer or repayment of any share or loan capital or any other security giving rise to a right over the Further Shares under any option, agreement or other arrangement (including conversion rights and rights of pre-emption) other than pursuant to this Agreement or the Shareholders' Agreement.

2 Further Debt

2.1 The Seller is the sole legal and beneficial owner of the Further Debt and has the right to receive all amounts of outstanding principal and accrued but unpaid interest in respect of the Further Debt from time to time.

2.2 The Further Debt is free from all Encumbrances.

3 Incorporation

The Seller is validly existing and is a company duly incorporated under the laws of England and Wales.

4 Authority to enter into Agreement

4.1 The Seller has the legal right and full power and authority to enter into and perform this Agreement.

4.2 This Agreement will, when executed, constitute valid and binding obligations on the Seller in accordance with its terms.

5 Authorisation

The Seller has taken or will have taken by Further Closing all corporate action required by it to authorise it to enter into and perform this Agreement.

Schedule 3
Warranties given by the Investor
(Clause 7.2)

1 Authority and Capacity

1.1 Incorporation

The Investor is validly existing and is a company duly incorporated under the laws of England and Wales.

1.2 Authority to enter into Agreement

1.2.1 The Investor has the legal right and full power and authority to enter into and perform this Agreement.

1.2.2 This Agreement will, when executed, constitute valid and binding obligations on the Investor in accordance with its respective terms.

1.3 Authorisation

The Investor has taken or will have taken by Further Closing all corporate action required by it to authorise it to enter into and perform this Agreement.

2 Insolvency etc.

2.1 The Investor is not insolvent or unable to pay its debts as they fall due.

2.2 There are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or other insolvency proceedings concerning any member of the Investor's Group which may adversely affect the ability of the Investor to comply with this Agreement and no events have occurred which, under applicable laws, would justify such proceedings.

2.3 So far as the Investor is aware, no steps have been taken to enforce any security over any assets of any member of the Investor's Group which may adversely affect the ability of the Investor to comply with this Agreement and no event has occurred to give the right to enforce such security.

Schedule 4
Limits and Claims

Part A – Seller's Warranties

1 Limitation of Liability

1.1 Time limitation for breach of the Seller's Warranties

The Seller shall not be liable for a breach of any of the Seller's Warranties unless the Investor has notified the Seller of the claim specifying the matters set out in paragraph 2.1 within 12 months following the Further Closing Date.

1.2 Maximum liability

The aggregate liability of the Seller for breach of any of the Seller's Warranties shall not exceed the Further Acquisition Payment.

1.3 No double recovery and no double counting

No party may recover for breach of or under this Agreement or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), and no amount (including any Relief) (or part of any amount) shall be taken into account, set off or credited more than once for breach of or under this Agreement or otherwise, with the intent that there will be no double counting for breach of or under this Agreement or otherwise.

1.4 Mitigation of Losses

The Investor shall procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability for any claim for breach of the Seller's Warranties.

1.5 Fraud

None of the limitations contained in this paragraph 1 shall apply to any claim for breach of the Seller's Warranties to the extent it arises or is increased as a result of fraud by the Seller.

2 Claims

2.1 Notification of potential Claims

If the Investor becomes aware of any fact, matter or circumstance that may give rise to a claim for breach of any of the Seller's Warranties then the Investor shall as soon as reasonably practicable give a notice in writing to the Seller setting out such information as is available to the Investor concerning the potential claim.

2.2 Notification of Claims

Notice of any claim arising from a breach of any of the Seller's Warranties shall be given by the Investor to the Seller within the time limit specified in paragraph 1.1.

2.3 Commencement of Proceedings

Any claim notified pursuant to paragraph 2.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn six months after the notice is given pursuant to paragraph 2.2, unless at the relevant time legal proceedings in respect of the claim have been commenced by being both issued and served.

Part B – Claims Only

For the avoidance of doubt, this Part B of Schedule 4 does not apply to claims for breach of any of the Seller's Warranties.

1 Limitation of Liability

1.1 Time limitation for Claims

The Seller shall not be liable for any Claim unless a notice of the Claim is given by the Investor to the Seller within 24 months following the Further Closing Date.

1.2 Minimum Claims

1.2.1 The Seller shall not be liable for any individual Claim (or a series of Claims arising from substantially identical facts or circumstances) where the liability agreed or determined for any such Claim or series of Claims does not exceed £4,600,000.

1.2.2 Where the liability agreed or determined in respect of any Claim or series of Claims (as the case may be) exceeds the amount referred to in paragraph 1.2.1, the Seller shall be liable for the full amount of all such Claims and not just the excess.

1.3 Aggregate minimum Claims

1.3.1 The Seller shall not be liable for any Claim unless the aggregate amount of all Claims for which the Seller would otherwise be liable exceeds an amount equal to 2 per cent. of the Further Acquisition Payment.

1.3.2 Where the liability agreed or determined in respect of all Claims referred to in paragraph 1.3.1 exceeds the amount referred to in paragraph 1.3.1, the Seller shall be liable for the full amount of all such Claims and not just the excess.

1.4 Maximum liability

The aggregate liability of the Seller for all Claims shall not exceed an amount equal to 10 per cent. of the Further Acquisition Payment.

1.5 Contingent liabilities

The Seller shall not be liable for any Claim in respect of any liability which is contingent unless and until such contingent liability becomes an actual liability and is due and payable.

1.6 Losses

The Seller shall not be liable for any Claim in respect of any loss of profit, loss of goodwill or any indirect or consequential losses.

1.7 Matters arising subsequent to this Agreement

The Seller shall not be liable for any Claim to the extent that the Losses occasioned by the Claim have arisen as a result of:

1.7.1 Agreed matters

any matter or thing done or omitted to be done pursuant to and in compliance with this Agreement or any other Transaction Document or otherwise at the request in writing or with the approval in writing of the Investor;

1.7.2 Acts of the Investor

any act, omission or transaction of the Investor or any member of the Investor's Group or any of the GasD Group Companies, or their respective directors, officers, employees or agents or successors in title, after Further Closing:

(i) outside the ordinary course of business; or

(ii) otherwise than in order to comply with law, pursuant to a legally binding commitment to which the GasD Group is subject on or before Further Closing or in accordance with or approved under the Shareholders' Agreement;

1.7.3 Changes in legislation, regulation or practice

(i) the passing of, or any change in, after the date of this Agreement, any law, rule, regulation or administrative practice of any government, governmental department, agency or regulatory body, including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not actually (or prospectively) in effect at the date of this Agreement;

(ii) any change after the date of this Agreement of any generally accepted interpretation or application of any legislation; or

(iii) any change after the date of this Agreement of any generally accepted accounting principles, procedure or practice; or

1.7.4 Accounting and Taxation policies

any change in accounting or Taxation policy, bases or practice of the Investor, the Investor's Group or the GasD Group Companies introduced or having effect after the date of this Agreement.

1.8 Insurance

The Seller shall not be liable for any Claim to the extent that the Losses in respect of which the Claim is made: (i) are covered by a policy of insurance; or (ii) would have been covered if the policies of insurance for the benefit of the GasD Group Companies in force at the date of Further Closing had been maintained after Further Closing on no less favourable terms.

1.9 Investor's, GasD MidCo's and GasD HoldCo's right to recover

1.9.1 Recovery for Actual Liabilities

The Seller shall not be liable to pay an amount in discharge of any Claim unless and until the liability for which the Claim is made has become due and payable.

1.9.2 Prior to recovery from the Seller etc.

If, before the Seller pays an amount in discharge of any Claim, the Investor, any member of the Investor's Group or any GasD Group Company recovers or is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Investor, any member of the Investor's Group or any GasD Group Company (in whole or in part) for the loss or liability which is the subject matter of the Claim, the Investor shall procure that, before steps are taken to enforce a Claim against the Seller following notification under paragraph 2.2 or under any other Transaction Document, all reasonable steps are taken to enforce the recovery against the third party and any actual recovery (less any Taxation suffered thereon and any reasonable costs incurred in obtaining such recovery) shall reduce or satisfy, as the case may be, such Claim to the extent of such recovery.

1.9.3 Following Recovery from the Seller etc.

(iii) If the Seller has paid an amount in discharge of any Claim and subsequently the Investor, any member of the Investor's Group or any GasD Group Company is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Investor, any member of the Investor's Group or any GasD Group Company (in whole or in part) for the loss or liability which is the subject matter of the Claim, the Investor shall procure that all steps are taken as the Seller may reasonably require to enforce such recovery and shall pay to the Seller as soon as practicable after receipt an amount equal to: (i) any sum recovered from the third party less any Taxation suffered thereon and less any costs and expenses incurred in obtaining such recovery; or, if less, (ii) the amount previously paid by the Seller to the Investor; and

(iv) Any payment made by the Investor to the Seller under this paragraph 1.9.3 shall, to the extent possible, be made by way of further adjustment of the Further Share Consideration and the provisions of Clause 3.3 shall apply *mutatis mutandis*.

1.10 No double recovery and no double counting

No party may recover for breach of or under this Agreement or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), and no amount (including any Relief) (or part of any amount) shall be taken into account, set off or credited more than once for breach of or under this Agreement or otherwise, with the intent that there will be no double counting for breach of or under this Agreement or otherwise.

1.11 Mitigation of Losses

The Investor shall procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability for any claim for breach of or under this Agreement.

1.12 Fraud

None of the limitations contained in this Part B shall apply to any claim for breach of or under this Agreement to the extent it arises or is increased as a result of fraud by the Seller.

2 Claims

2.1 Notification of potential Claims

If the Investor becomes aware of any fact, matter or circumstance that may give rise to a Claim or a Cornerstone Claim then the Investor shall as soon as reasonably practicable give a notice in writing to the Seller setting out such information as is available to the Investor concerning the potential Claim or Cornerstone Claim.

2.2 Notification of Claims

Notice of any Claim shall be given by the Investor to the Seller within the time limits specified in paragraph 1.1 of this Part B.

2.3 Commencement of proceedings

Any Claim notified pursuant to paragraph 2.1 or 2.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn six months after:

2.3.1 the notice is given pursuant to paragraph 2.1 or 2.2 (as the case may be); or

2.3.2 where paragraph 1.5 applies, a contingent liability becomes an actual liability,

unless at the relevant time legal proceedings in respect of the Claim have been commenced by being both issued and served.

2.4 Investigation by the Seller

In connection with any matter or circumstance that may give rise to a Claim:

2.4.1 the Investor on the one hand and the Seller on the other hand shall allow, and shall procure that the relevant GasD Group Company allows, the other party and its financial, accounting or legal advisers to investigate the matter or circumstance alleged to give rise to the Claim and whether and to what extent any amount is payable in respect of such Claim; and

2.4.2 the Investor on the one hand shall disclose to the Seller on the other hand all material of which the Investor is aware which relates to the Claim and shall procure that any other GasD Group Companies shall give, subject to their being paid all reasonable costs and expenses, all such information and assistance, including access to premises and personnel, making such personnel available for factual interviews, preparation for testimony, giving evidence, producing affidavits and other similar activities, and the right to examine and copy or photograph any assets, accounts, documents and records, as the Seller or its financial, accounting or legal advisers may reasonably request subject to the Seller agreeing in such form as the Investor may reasonably require to keep all such information confidential and to use it only for the purpose of investigating and defending the Claim in question.

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

Schedule 5
[***]

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

Schedule 6
Sell Notice

To: Quadgas Investments Bidco Limited
18 St Swithin's Lane
London EC4N 8AD
United Kingdom

Attention: The Directors

With a copy to: [***]

[Date] 2018

Dear Sirs,

We, National Grid Holdings One plc, refer to the Further Acquisition Agreement dated [•] 2017 and made between yourselves, and ourselves (the "**Agreement**") and to the right granted to us pursuant to Clause 4.1 of the Agreement to require you to purchase the Further Sale Assets. Defined terms in this notice shall have the meanings set out in the Agreement.

This is the Sell Notice referred to in the Agreement.

1 Further Sale Assets

We hereby give notice under and pursuant to Clause 4.1 of the Agreement that we wish to sell to you the Further Sale Assets. The Further Sale Assets comprise the following:

(i) Further Shares: [*Insert number*]

(ii) Further Debt: [*Insert amount*]

2 Permitted Regulatory Conditions

[*Insert details of any Permitted Regulatory Conditions*]

3 Further Closing Date

The Further Closing Date shall be [•] 2019.

Yours faithfully,

____

For and on behalf of
National Grid Holdings One plc

FOIA confidential treatment requested: [***] indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such omitted portions.

Schedule 7
Purchase Notice

To: National Grid Holdings One plc
1-3 Strand
London WC2N 5EH
United Kingdom

Attention: Group General Counsel and Company Secretary
Email: [***]

With a copy by email to:
Email: [***]

[Date] 2019

Dear Sirs,

We, Quadgas Investments Bidco Limited, refer to the Further Acquisition Agreement dated [•] 2017 and made between yourselves, and ourselves (the "**Agreement**") and to the right granted to us pursuant to Clause 4.2 of the Agreement to require you to transfer to us the Further Sale Assets. Defined terms in this notice shall have the meanings set out in the Agreement.

This is the Purchase Notice referred to in the Agreement.

1 Further Sale Assets

We hereby give notice under and pursuant to Clause 4.2 of the Agreement that we wish to acquire the Further Sale Assets from you. The Further Sale Assets comprise the following:

(i) Further Shares: [*Insert number*]

(ii) Further Debt: [*Insert amount*]

2 Permitted Regulatory Conditions

[*Insert details of any Permitted Regulatory Conditions*]

3 Further Closing Date

The Further Closing Date shall be [•] 2019.

Yours faithfully,

____

For and on behalf of
Quadgas Investments Bidco Limited

EXHIBIT 4 (c).4

Dated March 2016

NATIONAL GRID ELECTRICITY TRANSMISSION PLC

and

NICOLA SHAW

SERVICE AGREEMENT

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone (44-20) 7456 2000
Facsimile (44-20) 7456 2222

This Agreement is made on March 2016 between

(1) **NATIONAL GRID ELECTRICITY TRANSMISSION PLC** incorporated in the UK whose registered office is at 1-3 Strand, London WC2N 5EH (the "**Company**"); and

(2) **NICOLA SHAW** of Flat 7 132-136, St John Street, London EC1V 4JT (the "**Executive**").

This agreement records the terms on which the Executive will serve the Company.

1 Interpretation

In this agreement:

1.1 Definitions

"**Board**" means the board of directors of National Grid plc at any time or any person or committee nominated by the board of directors as its representative for the purposes of this agreement;

"**Employment**" means the employment governed by this agreement;

"**Group**" means National Grid plc, the Company, its ultimate holding company from time to time and the Company's associates (as defined in section 435 of the Insolvency Act 1986) from time to time;

"**Group Company**" means a member of the Group and "**Group Companies**" will be interpreted accordingly;

"**holding company**" has the meaning given in section 1159 of the Companies Act 2006;

"**Listing Rules**" means the listing rules made by the Financial Conduct Authority in exercise of its functions as a competent authority pursuant to Part VI of the Financial Services and Markets Act 2000; and

"**Termination Date**" means the date on which the Employment terminates.

2 Commencement of Employment

2.1 The Employment will start on a date to be agreed in writing between the parties (the "**Commencement Date**"). The Employment will continue until termination in accordance with the provisions of this agreement. The Executive's period of continuous service will start on the Commencement Date.

2.2 The Executive warrants that she is not prevented from taking up the Employment or from performing her duties in accordance with the terms of this agreement by any obligation or duty owed to any other party, whether contractual or otherwise.

3 Appointment and Duties of the Executive

3.1 The Executive will serve as Executive Director with direct responsibility for all National Grid businesses within the UK and interconnectors services to and from Europe or in any other executive capacity as the Executive and the Company may agree from time to time. In such capacity the Executive shall as soon as practicable following the Commencement Date be appointed to the Board and to the board of the Company and, subject to the provisions of clause 13.6 below, shall be entitled to remain as a member of the Board and a director of the Company throughout the Employment.

3.2 The Executive will:

3.2.1 devote the whole of her working time, attention and skill to the Employment;

3.2.2 properly perform her duties and exercise her powers;

3.2.3 accept any offices or directorships as reasonably required by the Board;

3.2.4 comply with all rules and regulations issued by the Company as amended from time to time, including without limitation, the Code of Employee Conduct and the Standards of Ethical Business Conduct;

3.2.5 comply with personal shareholding requirements and clawback and malus provisions applicable to variable remuneration as set out in the Executive's reward letter from time to time;

3.2.6 obey the lawful directions of the Board; and

3.2.7 use all reasonable endeavours to promote the interests and reputation of every Group Company in a manner which is consistent with her role and status and within her professional experience and capabilities.

3.3 The Executive accepts that with her consent (which she will not unreasonably withhold or delay):

3.3.1 the Company may require her to perform duties, consistent with her role and status, for any other Group Company whether for the whole or part of her working time. In performing those duties clause 3.2.4 will apply as if references to the Company are to the appropriate Group Company. The Company will remain responsible for the payments and benefits she is entitled to receive under this agreement;

3.3.2 the Company may appoint any other person to act jointly with her; and

3.3.3 the Company may transfer the Employment to any other Group Company.

3.4 The Executive will keep the Board (and, where appropriate the board of directors of any other Group Company) fully informed, in accordance with the reporting procedures prescribed by the Board (if any) and, in any event, in a prompt and timely manner having regard to the relevant facts and circumstances, of her conduct of the business, finances or affairs of the Company or any other Group Company. She will provide information to the Board in writing if requested.

3.5 The Executive will promptly disclose to the Board any facts or matters of which she becomes aware which to her knowledge constitute wrongdoing by any employee of any Group Company where that wrongdoing is material to that employee's employment by the relevant company or to the interests or reputation of any Group Company.

3.6 At any time during the Employment the Company may require the Executive to undergo a medical examination by a medical practitioner appointed by the Company. The Executive authorises that medical practitioner to disclose to the Company any report or test results prepared or obtained as a result of that examination, upon condition that a copy of such report and any correspondence related thereto is promptly supplied to the Executive, and to discuss with it any matters arising out of the examination which are relevant to the

Employment or which might prevent the Executive properly performing the duties of the Employment. If the Executive is required to undergo a medical examination more than once in any period of 12 calendar months the Company shall provide in writing the reasonable grounds for such requirement.

3.7 The Executive is required to comply with the Company's policies and procedures which may be amended or introduced from time to time, these are available on the Company intranet. If there is any conflict between those polices and this agreement, the terms of this agreement shall prevail.

4 Hours

4.1 The Executive will comply with the Company's normal hours of work and will also work any additional hours which may be reasonably necessary to perform her duties to the satisfaction of the Board. She will not receive any further remuneration for any hours worked in addition to the normal working hours.

4.2 The Executive and the Company agree that the Executive is a managing executive for the purposes of the Working Time Regulations 1998 (the "**Regulations**") and is able to determine the duration of her working time herself. As such, the exemptions in Regulation 20 of the Regulations will apply to the Employment.

4.3 The Executive agrees to keep records of her working hours as reasonably required by the Company from time to time in order to comply with its obligations under the Regulations.

5 Interests of the Executive

5.1 The Executive will disclose promptly in writing to the Board all her interests (for example, shareholdings or directorships) whether or not of a commercial or business nature except her interests in any Group Company. The Executive shall be entitled to hold one other external non-executive directorship or equivalent position, provided it is first approved by the Board (which approval shall not be unreasonably withheld, where the holding of such a directorship or position does not conflict with the business interests of any Group Company, nor interfere with the proper performance by the Executive of her duties hereunder). The Executive shall be entitled to retain any fees derived from such directorship or position.

5.2 Subject to clause 5.3, during the Employment the Executive will not be directly or indirectly engaged or concerned in the conduct of any activity which is similar to or competes with any activity carried on by any Group Company (except as a representative of the Company or with the written consent of the Board).

5.3 The Executive may not hold or be interested in investments which amount to more than three per cent of the issued investments of any class of any one company whether or not those investments are listed or quoted on any recognised Stock Exchange or dealt in on the Alternative Investments Market.

5.4 The Executive will (and will procure that her spouse and dependent children) comply with all rules of law, including Part V of the Criminal Justice Act 1993, the Model Code as set out in the annex to Chapter 9 of the Listing Rules as amended from time to time and rules or policies applicable to the Company from time to time in relation to the holding or trading of securities.

6 Location

6.1 The Executive will be based at National Grid House, Warwick Technology Park, Gallows Hill, Warwick CV34 6DA or anywhere else within the United Kingdom with her consent, which shall not be unreasonably withheld. She may be required to travel and work both within and outside the United Kingdom from time to time but, unless otherwise agreed with the Board, will not be required to live outside the United Kingdom.

7 Base salary and Benefits

7.1 From the Commencement Date the Company will pay the Executive a base salary of £450,000 per annum. Base salary will be paid in equal monthly instalments, partly in arrears and partly in advance, by bank credit transfer on or about the 15th day of each month and will accrue from day to day. Base salary will be reviewed annually. The review will usually take place in June, with the first such review for the Executive being in June 2017. The Company is under no obligation to award an increase following a salary review, but the salary will not be reduced. There will be no review of salary after notice has been given by either party to terminate this agreement under clause 12.

7.2 The base salary referred to in clause 7.1 includes director's fees from the Group Companies and any other companies in which the Executive is required to accept a directorship under the terms of this Employment. To achieve this:

7.2.1 the Executive will repay any fees she receives to the Company;

7.2.2 her base salary will be reduced by the amount of those fees; or

7.2.3 a combination of the methods set out in clauses 7.2.1 and 7.2.2 will be applied.

7.3 Subject to the Executive providing reasonable evidence that she has been deprived by her previous employer of her annual bonus for 2016 and her long term incentive award which was due to vest in 2016 (together "the Awards"), the Company will pay to the Executive a sum in cash equal to the lost compensation relating to the Awards lost of up to a maximum of £485,000.

The payment to be made under this clause 7.3:

(a) is conditional upon the Executive being employed by the Company at the time the payment is due to be made unless she has not become employed as a result of fundamental breach of this agreement by the Company or, having become employed, employment is terminated otherwise than (i) as a result of her voluntary resignation (except on account of constructive dismissal); or (ii) in circumstances where the Company is entitled to dismiss her summarily pursuant to the provisions of clause 12.5 before payment has been made;

(b) is non-pensionable, and will be made subject to such deductions as are required to be made by law;

(c) will be made in the payroll of the month following the Commencement Date; and

(d) must be repaid to the Company in full if the Executive resigns (otherwise than on account of provable constructive dismissal) or in circumstances where the Company is entitled to dismiss her summarily pursuant to the provisions of clause 12.5 within 24 months of the payment being made.

7.4 The Executive may at the discretion of the Remuneration Committee be invited to participate in any bonus and/or incentive plan operated by the Company and as introduced or amended from time to time. The Executive will be considered for eligibility for any bonus and/or incentive plan in a manner consistent with other directors on the Board. If so invited the Executive's participation in such bonus and / or incentive plan and the amount (if any) payable under it will be at the discretion of the Remuneration Committee (acting reasonably and in good faith) and/or in accordance with the rules of any such plan in force from time to time. Participation in a bonus and/or incentive plan for one year does not entitle the Executive to participation in any bonus plan for any other year.

7.5 The Company will either:

7.5.1 provide a car for the Executive's use in accordance with the rules of the Company car scheme, as amended, from time to time; or

7.5.2 pay the Executive a taxable, non-pensionable car allowance of £12,000 per annum. The car allowance will be paid monthly, half in arrears and half in advance, and in the same manner as the Executive's salary.

7.6 In lieu of making a contribution into a pension scheme, the Company will pay you an annual cash allowance equal to 30% of your base salary alone (as referred to in clause 7.1, at the rate in force at the time such payment is made). The Company reserves the right to amend the level of cash allowance to be paid to you under this clause 7.6 in order to comply with relevant legislation.

7.7 Subject to the arrangements regarding holiday which are set out at clause 7.9 below and which take precedence, the Executive is eligible to participate in the Company's flexible benefits scheme as introduced or amended from time to time, currently "Your Flexible Benefits", which provides access to a range of optional benefits. The Executive should note that some of the benefits provided under the scheme may be taxable benefits. The Executive should note the range of flexible benefits offered and the flexible benefits package itself does not form part of the Executive's contract of employment and the Company reserves the right, at any time, to withdraw and/or amend the flexible benefits scheme and the benefits provided under it at its absolute discretion.

7.8 If the Executive complies with any eligibility requirements or other conditions set by the Company and any insurer appointed by the Company ("**Insurer**"), the Executive and her spouse and children under 21 years of age who reside with the Executive or in full time education up to the age of 24 may participate in the Company's private health insurance arrangements at the Company's expense and subject to the terms of those arrangements in force from time to time. The Company reserves the right at any time to withdraw this benefit or to amend the terms upon which it is provided (including, without limitation, to cease to allow the Executive's spouse and children to participate in any such private health insurance arrangements). The Executive understands and agrees that if the Insurer fails or refuses to provide her with any benefit under the insurance arrangement provided by the Company, the Executive will have no right of action against the Company in respect of such failure or refusal.

7.9 The Company shall provide life insurance for the benefit of the Executive equal to four times the base salary from time to time payable hereunder.

7.10 If and whenever permanent health insurance is provided for the benefit of the executive directors of National Grid Plc and / or the Company, the Executive will also be afforded the benefit of such cover.

7.11 The Executive is entitled to 28 days' paid holiday each year (in addition to English bank and other public holidays) subject to any election the Executive may choose to make pursuant to the Company's flexible benefits scheme. Any election the Executive may choose to make pursuant to the Company's flexible benefits scheme to increase her holiday entitlement will be subject to prior Board or Chief Executive approval. All holiday must be taken at times approved in advance by the Board or by the Chief Executive. The Executive's holiday year commences in the month of her birth and ends on the preceding month in the following year. Holidays may not be carried forward from one holiday year to the next without the Board's prior approval. The Executive agrees the provisions of Regulations 15(1)-(4) inclusive of the Regulations (dates on which leave is taken) do not apply to the Employment.

Holiday entitlement will accrue from day to day. For part years, the Executive's holiday entitlement for the year will be pro-rated to the length of her service in that year. The Executive will be paid for any accrued holiday not taken at the Termination Date unless the Employment is terminated for gross misconduct or in accordance with clause 12.5. The Company may require the Executive to take any accrued holiday during any notice period. If on the Termination Date the Executive has exceeded her accrued holiday entitlement, the excess may be deducted from any sums due to him. The formula for calculating the amount of holiday due to the Executive and any payments or repayments to be made is 1/260 of the Executive's annual base salary.

7.12 The rules governing sickness absence are set out in the Company's Sickness Absence Policy which is available on the intranet. The Executive must comply with these rules. Without prejudice to any right of the Company to terminate the Employment at any time pursuant to clause 12, if the Executive is absent from work as a result of sickness or injury then provided that the rules are complied with, the Executive shall be entitled to sick pay in accordance with the rules of the Company sick pay scheme as detailed below:

7.12.1 After the Executive has accrued at least twelve months' continuous service:

(i) an allowance equal to base salary will be paid for the first six months of such absence;

(ii) after the expiration of the six month period, an allowance equal to half of base salary will be paid for a further period of up to six months.

7.12.2 The amount of any benefit which the Executive is entitled to claim during that period of absence under any Social Security or National Insurance Scheme in England and Wales and/or any scheme of which the Executive is a non-contributory member by virtue of the Employment will be deducted from any base salary paid to her. The Company will pay the Executive statutory sick pay under the Social Security Contributions and Benefits Act 1992 (as amended) ("**SSP**") and any base salary paid to her will be deemed to include statutory sick pay. The Company reserves the right to offset the amount of these benefits against base salary paid to the Executive even if the Executive has not recovered them.

7.12.3 Any sick pay or allowances in excess of SSP paid after the end of the periods referred to above is entirely at the Company's discretion.

7.13 If the Executive is absent from work due to sickness or injury which is caused by the fault of another person, and as a consequence recovers from that person or another person any sum representing compensation for loss of base salary under this agreement, the Executive will repay to the Company any money it has paid to her as base salary in respect of the same period of absence.

7.14 Notwithstanding any other provision in this agreement, any payments to be made, and benefits to be provided under this agreement or otherwise in relation to the Employment, may be subject to shareholder approval and will be subject to compliance with the Company's remuneration policy as approved by shareholders from to time. To the extent that any such shareholder approval is needed, the Company will seek it at the next scheduled Annual General Meeting and any deadline in relation to the delivery of such payments or benefits will be delayed accordingly.

8 Directors' and Officers' protection

8.1 The Company will maintain appropriate directors' and officers' liability insurance for the benefit of the Executive in respect of her period as a director of the Company and any Group Company on terms no less favourable than those applied to any current director or officer of the Company.

9 Expenses

9.1 The Company will refund to the Executive all reasonable expenses properly incurred by her in performing her duties under this agreement, provided that these are incurred in accordance with Company policy in force from time to time. The Company will require the Executive to produce receipts or other documents as proof that she has incurred any expenses she claims.

9.2 If the Executive is provided with a credit or charge card by the Company this must normally be used for expenses which she incurs in performing the duties of the Employment. It may be used for personal expenses only in exceptional circumstances.

10 Confidentiality

10.1 Without prejudice to the common law duties which she owes to the Company the Executive agrees that she will not, except in the proper performance of her duties, copy, use or disclose to any person any of the Company's trade secrets or confidential information. This restriction will continue to apply after the termination of the Employment without limit in time but will not apply to trade secrets or confidential information which become public other than through unauthorised disclosure by the Executive. The Executive will use all reasonable endeavours to prevent the unauthorised copying use or disclosure of such information.

For the purposes of this agreement, "trade secrets" and "confidential information" include but will not be limited to technical data, know-how, information technology and know-how relating to the Company, customer lists, pricing information, information relating to the Company's marketing and financial strategies, marketing materials, financial information and any other information concerning the affairs of the Company which is for the time being confidential, which the Executive is told is confidential or which by its nature is obviously confidential and whether such information is in written, oral, visual, electronic or any other form.

10.2 In the course of the Employment the Executive is likely to obtain trade secrets and confidential information belonging or relating to other Group Companies and other persons. She will treat such information as if it falls within the terms of clause 9.1 and clause 9.1 will apply with any necessary amendments to such information. If requested to do so by the Company the Executive will enter into an agreement with other Group Companies and any other persons in the same terms as clause 10.1 with any amendments necessary to give effect to this provision.

10.3 Nothing in this agreement will prevent the Executive from making a "protected disclosure" in accordance with the provisions of the Employment Rights Act 1996.

11 Intellectual Property Rights

For the purposes of this clause, "**Intellectual Property**" means patents, trade marks, service marks, registered designs (including applications for and rights to apply for any of them), inventions, unregistered design rights, logos, trade or business names, copyrights, database rights, confidential information, knowhow and any similar rights in any country.

11.1 The Executive acknowledges that (i) it is part of her normal duties to develop the products and services of the Company; and (ii) because of the nature of her position she has a special obligation to further the interests of the Company. All Intellectual Property which the Executive develops or produces in the course of her employment duties, or outside such duties but relating to the business of the Company, will be owned by the Company to the fullest extent permitted by law. The Executive agrees, at the Company's expense, to sign all documents and carry out all such acts as will be necessary to vest such Intellectual Property in the Company, and to obtain protection and enforce the Company's rights anywhere in the world. The Executive also hereby waives all moral rights in all Intellectual Property which is owned by the Company, or will be owned by the Company, further to this clause. The Executive will not copy, disclose or make use of any Intellectual Property belonging to the Company (whether or not subject to this clause) except to the extent necessary for the proper performance of her duties. Rights and obligations under this clause will continue after the termination of this agreement in respect of all Intellectual Property arising during the Employment.

11.2 The Executive must disclose immediately to the Company any discovery or invention, secret process or improvement in procedure made or discovered by the Executive during her employment in connection with or in any way affecting or relating to the business of the Company or any Group Company or capable of being used or adapted for use in or in connection with any such company ("**Inventions**") which Inventions will belong to and be the absolute property of the Company or such other person, firm, company or organisation as the Company may require.

11.3 If requested by the Board (whether during or after the termination of her employment) the Executive will, at the expense of the Company, apply or join in applying for letters patent or other similar protection in the United Kingdom or any other part of the world for all Inventions and will do everything necessary (including executing documents) for vesting letters patent or other similar protection when obtained; and all rights and title to and interest in all Inventions in the Company absolutely and as sole beneficial owner or in such other person, firm, company or organisation as the Company may require.

11.4 The Executive will (both during and after the termination of her employment) at the Company's expense anywhere in the world and at any time promptly do everything (including executing documents) that may be required by the Board to defend or protect for the benefit of the Company all Inventions and the right and title of the Company to them.

11.5 The provisions of clause 11.1 to 11.4 (inclusive) are without prejudice to the provisions of the Patents Act 1977.

11.6 The entire copyright and all similar rights (including future copyright, the right to register trade marks or service marks and the right to register designs and design rights) throughout the world in works of any description produced by the Executive in the course of or in connection with her employment ("**Works**") will vest in and belong to the Company absolutely throughout the world for the full periods of protection available in law including all renewals and extensions.

11.7 The Executive will (both during and after the termination of her employment) at the Company's request and expense anywhere in the world and at any time promptly do everything (including executing documents) that may be required by the Board to assure, defend or protect the rights of the Company in all Works.

11.8 For the purposes of this clause 11 the Executive hereby irrevocably and unconditionally waives in favour of the Company the moral rights conferred on the Executive by Chapter IV Part 1 of the Copyright Designs and Patents Act 1988 in respect of any Inventions or Works in which the copyright is vested in the Company under this clause 11 or otherwise.

11.9 The Executive will not make copies of any computer files belonging to any Group Company or their service providers and will not introduce any of her own computer files into any computer used by any Group Company in breach of any Group Company policy, unless she has obtained the consent of the Board.

11.10 By entering into this agreement the Executive irrevocably appoints the Company to act on her behalf to execute any document and do anything in her name for the purpose of giving the Company (or its nominee) the full benefit of the provision of clause 11 or the Company's entitlement under statute. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 11.10, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove that the act or thing falls within that authority.

12 Termination and Suspension

12.1 The Employment will continue until terminated by either party giving written notice as set out in clause 12.2.

12.2 Either party may terminate the Employment by giving not less than 12 months' written notice to the other.

12.3 The Company may at its sole and absolute discretion pay base salary alone (as referred to in clause 7.1 at the rate in force at the time such payment is made) in lieu of any unexpired period of notice (less any deductions the Company is required by law to make). For the avoidance of doubt, the Executive is not entitled to participate in or benefit from any severance, termination or redundancy plan operated by any member of the Group. The Company may pay any sums to the Executive under this clause in equal monthly instalments until the date on which the notice period under clause 12.2 would have expired if full notice had been given. The Executive shall be under an obligation to seek alternative income during such period and to notify the Company of any alternative income received during this period derived from employment or the provision of services. Any monthly instalments shall be reduced by the amount of any such alternative income which the Executive receives during or in relation to such part (other than fees derived from the position permitted under clause 5.1).

12.4 The Company may terminate the Employment by giving written notice to take immediate effect whether or not the Executive's entitlement to sick pay, contractual or otherwise, has been exhausted if the Executive does not perform the duties of the Employment for a period of 364 days (whether or not consecutive) in any period of 2 years. This notice can be given whilst the Executive continues not to perform her duties or on expiry of the 364 day period. In this clause, 'days' includes Saturdays, Sundays and public holidays.

12.5 The Company may terminate the Employment by giving written notice to take immediate effect if the Executive:

12.5.1 has consistently and in material respects failed to perform her duties under this agreement to a standard reasonably to be expected of a person performing her role;

12.5.2 commits any serious or (after warning) persistent breach of her obligations under this agreement;

12.5.3 does not comply in a material respect with any fundamental term of this agreement;

12.5.4 does not comply in a material respect with any lawful and reasonable order or direction given to her by the Board;

12.5.5 is guilty of any gross misconduct or conducts herself (whether in connection with the Employment or not) in a way which is harmful to any Group Company;

12.5.6 is guilty of or confesses to a dishonesty offence or is convicted of or confesses to any criminal offence tending to bring herself, the Company or any Group Company into disrepute (other than a motoring offence which does not result in imprisonment) whether in connection with the Employment or not;

12.5.7 commits (or is reasonably believed by the Board to have committed) a material breach of any legislation in force which may affect or relate to the business of any Group Company;

12.5.8 becomes of unsound mind, bankrupt or has a receiving order made against her or makes any general composition with her creditors or takes advantage of any statute affording relief for insolvent debtors;

12.5.9 becomes disqualified from being a director of a company or the Executive's directorship of the Company terminates without the consent or concurrence of the Company; and/or

12.5.10 fails to maintain or becomes disqualified from maintaining registration with any regulatory body, membership of which is reasonably required by the Company for the Executive to carry out her duties.

12.6 Where the Company terminates the Employment by giving written notice to take immediate effect in accordance with either clause 12.4 or 12.5, for the avoidance of doubt there is no obligation to give notice as set out in clause 12.1 or any other period of notice or to make any payment in lieu of notice.

12.7 The Executive will have no claim for damages or any other remedy against the Company if the Employment is validly terminated for any of the reasons set out in clause 12.4 or 12.5.

12.8 When the Employment terminates the Company may deduct from any money due to the Executive (including remuneration) any amount which she owes to any Group Company.

12.9 The Company may suspend the Executive from the Employment on full base salary and other benefits at any time for a reasonable period to investigate any matter in which the Executive is implicated or involved (whether directly or indirectly) where the Company has reason to believe that the Executive may have been guilty of any impropriety, and to conduct any related disciplinary proceedings. Any investigation shall be conducted so far as possible in confidence and shall be conducted and concluded as expeditiously as is reasonably practicable.

13 Garden Leave

13.1 Neither the Company nor any Group Company is under any obligation to provide the Executive with any work. At any time after notice to terminate the Employment is given by either party under clause 12 above, or if the Executive resigns without giving due notice and the Company does not accept her resignation, the Company may, at its absolute discretion, require the Executive to take a period of absence called garden leave for a maximum period of 6 months (the "**Garden Leave Period**"). The provisions of this clause shall apply to any Garden Leave Period.

13.2 The Company may require that the Executive will not, without prior written consent of the Board, be employed or otherwise engaged in the conduct of any activity, whether or not of a business nature during the Garden Leave Period. Further, if so requested by the Company, the Executive will not:

13.2.1 enter or attend the premises of the Company or any other Group Company;

13.2.2 contact or have any communication with any customer or client of the Company or any other Group Company in relation to the business of the Company or any other Group Company (other than purely social contact);

13.2.3 contact or have any communication with any employee, officer, director, agent or consultant of the Company or any other Group Company in relation to the business of the Company or any other Group Company (other than purely social contact);

13.2.4 remain or become involved in any aspect of the business of the Company or any other Group Company except as required by such companies; and/or

13.2.5 access the Company's or any Group Company's information technology systems.

13.3 The Company may require the Executive during the Garden Leave Period:

13.3.1 to comply with the provisions of clause 16, save that she will not be required to return any Company car during any Garden Leave Period; and

13.3.2 to immediately resign from any directorship, trusteeships or other offices which she holds in any Group Company or any other company where such directorship or other office is held as a consequence or requirement of the Employment, unless she is required to perform duties to which any such directorship, trusteeship or other office relates in which case she may retain such directorships, trusteeships or other offices while those duties are ongoing. The Executive hereby irrevocably appoints the Company to be her attorney to execute any instrument and do anything in her name and on her behalf to effect her resignation if she fails to do so in accordance with this clause 13.3.2.

13.4 During the Garden Leave Period, the Executive will be entitled to receive her base salary and receive all contractual benefits in accordance with the terms of this agreement, save that she will not accrue any bonuses or be entitled to receive any new grants or awards under any long term incentive arrangements. Any unused holiday accrued at the commencement of the Garden Leave Period and any holiday accrued during any such period will be deemed to be taken by the Executive during the Garden Leave Period.

13.5 At the end of or at any time during the Garden Leave Period, the Company may, at its sole and absolute discretion, pay the Executive base salary alone (as defined in clause 7.1) in lieu of the balance of any period of notice given by the Company or the Executive (less any deductions the Company is required by law to make).

13.6 During the Garden Leave Period:

13.6.1 the Executive shall provide such assistance as the Company or any Group Company may require to effect an orderly handover of her responsibilities to any individual or individuals appointed by the Company or any Group Company to take over her role or responsibilities;

13.6.2 the Executive shall make herself available to deal with requests for information, provide assistance, be available for meetings and to advise on matters relating to work (unless the Company has agreed that the Executive may be unavailable for a period); and/or

13.6.3 the Company may appoint another person to carry out her duties either jointly with her or in substitution for the Executive.

13.7 All duties of the Employment (whether express or implied), including without limitation the Executive's duties of fidelity, good faith and exclusive service, shall continue throughout the Garden Leave Period save as expressly varied by this clause 13.

13.8 The Executive agrees that the exercise by the Company of its rights during the Garden Leave Period pursuant to this clause 13 shall not entitle the Executive to claim that she has been constructively dismissed.

14 Restrictions after Termination of Employment

14.1 In this clause:

"**Prohibited Area**" means the United Kingdom, New York State, Rhode Island, Massachusetts and any other country in the world or US State in which the Company or any Group Company has material business interests in the period of 12 months ending on the Relevant Date;

"**Relevant Date**" means the Termination Date or, if earlier, the date on which the Executive commences any Garden Leave Period; and

"**Restricted Period**" means the period of 12 months (less any Garden Leave Period) commencing on the Termination Date.

14.2 The Executive is likely to obtain trade secrets and confidential information and personal knowledge of and influence over customers clients and employees of the Group during the course of the Employment. To protect these interests of the Company, the Executive agrees with the Company that she will be bound by the following covenants:

14.2.1 during the Restricted Period and within the Prohibited Area she will not be engaged in, employed in, act as a consultant to or agent for or carry on for her own account or for any other person, whether directly or indirectly, (or be a director of any company engaged in) any business which, by virtue of its location or otherwise, is or is about to be in competition with any business of the Company or any other Group Company being carried on by such company at the Relevant Date provided she was concerned or involved with that business to a material extent at any time during the 12 months prior to the Relevant Date; and

14.2.2 during the Restricted Period she will not (either on her own behalf or for or with any other person, whether directly or indirectly), entice or try to entice away from the Company or any other Group Company any person who was a senior employee, director, officer, agent, senior consultant or senior associate of such a company at the Termination Date and who had been a senior employee, director, officer, agent, senior consultant or senior associate at any time during the six months prior to the Relevant Date and with whom she had worked closely at any time during that period.

14.3 Each of the paragraphs contained in clause 14.2 constitutes an entirely separate and independent covenant. If any covenant is found to be invalid this will not affect the validity or enforceability of any of the other covenants.

14.4 Following the Termination Date, the Executive will not represent herself as being in any way connected with the businesses of the Company or of any other Group Company (except to the extent agreed by such a company).

14.5 Any benefit given or deemed to be given by the Executive to any Group Company under the terms of clause 14 is received and held on trust by the Company for the relevant Group Company. The Executive will enter into appropriate restrictive covenants directly with other Group Companies if asked to do so by the Company.

15 Offers on Liquidation

The Executive will have no claim against the Company if the Employment is terminated by reason of liquidation in order to reconstruct or amalgamate the Company or by reason of any reorganisation of the Company and the Executive is offered employment with the company succeeding to the Company upon such liquidation or reorganisation and the new terms of employment offered to the Executive are no less favourable to her than the terms of this agreement.

16 Return of Company Property

16.1 At any time during the Employment (at the request of the Company) and in any event when the Employment terminates, the Executive will immediately return to the Company:

16.1.1 all documents and other materials (whether originals or copies) made or compiled by or delivered to the Executive during the Employment and concerning all the Group Companies. The Executive will not retain any copies of any materials or other information; and

16.1.2 all other property belonging or relating to any of the Group Companies.

The Company shall procure that the Executive shall be given access to all agendas and minutes of board meetings (and documents circulated therewith) of Group Companies which relate to the period during which the Executive was a director of such Group Company whenever reasonably requested in connection with any regulatory enquiry or regulatory or other legal proceedings in which the Executive is a party or in which or in relation to which she is required to give evidence.

16.2 When the Employment terminates the Executive will immediately return to the Company any car provided to the Executive which is in the possession or under the control of the Executive. The Company car must be returned in good condition (allowing for fair wear and tear).

16.3 If the Executive commences Garden Leave in accordance with clause 13 she may be required to comply with the provisions of clause 16.1.

17 Directorships

17.1 The Executive's office as a director of the Company or any other Group Company is subject to the Articles of Association of the relevant company (as amended from time to time). If the provisions of this agreement conflict with the provisions of the Articles of Association, the Articles of Association will prevail.

17.2 Subject to and without prejudice to the provisions of clause 3.1, the Executive must promptly resign from any office held in any Group Company if she is asked to do so by the Company.

17.3 If the Executive does not resign as an officer of a Group Company, having been requested to do so in accordance with clause 17.2, the Company will be appointed as her attorney to effect her resignation. By entering into this agreement, the Executive irrevocably appoints the Company as her attorney to act on her behalf to execute any document or do anything in her name necessary to effect her resignation in accordance with clause 17.2. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 17.3, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove the act or thing falls within that authority.

17.4 The termination of any directorship or other office held by the Executive will not terminate the Executive's employment or amount to a breach of terms of this agreement by the Company.

17.5 During the Employment the Executive will not do anything which could cause her to be disqualified from continuing to act as a director of any Group Company.

17.6 The Executive must not resign her office as a director of any Group Company without the agreement of the Company.

18 Notices

18.1 Any notices given under this agreement must be given by letter or fax. Notice to the Company must be addressed to its registered office at the time the notice is given. Notice to the Executive must be given to her personally or sent to her last known address.

18.2 Except for notices given by hand, notices given by post will be deemed to have been given on the next working day after the day of posting and notices given by fax will be deemed to have been given in the ordinary course of transmission.

19 Statutory Particulars

19.1 The written particulars of employment which the Executive is entitled to receive under the provisions of Part I of the Employment Rights Act 1996 are set out below, insofar as they are not set out elsewhere in this agreement.

19.1.1 The Company's disciplinary rules and dismissal, disciplinary and grievance procedures as set out in the Staff Handbook and as amended from time to time are applicable to the Executive. The disciplinary rules are contractual. The dismissal, disciplinary and grievance procedures are non-contractual.

19.1.2 The Company's normal hours of work are 9.00am to 5.00pm Monday to Friday.

19.1.3 There are no terms and conditions relating to collective agreements or to the requirement to work outside the United Kingdom.

20 Data Protection Act 1998

20.1 For the purposes of the Data Protection Act 1998 (the "**Act**") the Executive gives her consent to the holding, processing and disclosure of personal data (including sensitive data within the meaning of the Act) provided by the Executive to the Company for all purposes relating to the performance of this agreement including, but not limited to:

20.1.1 administering and maintaining personnel records;

20.1.2 paying and reviewing base salary and other remuneration and benefits;

20.1.3 providing and administering benefits (including if relevant, pension, life assurance, permanent health insurance and medical insurance);

20.1.4 undertaking performance appraisals and reviews;

20.1.5 maintaining sickness and other absence records;

20.1.6 taking decisions as to the Executive's fitness for work;

20.1.7 providing references and information to future employers, and if necessary, governmental and quasi-governmental bodies for social security and other purposes, HMRC and the Contributions Agency;

20.1.8 providing information to future purchasers of the Company or of the business in which the Executive works; and

20.1.9 transferring information concerning the Executive to a country or territory outside the EEA.

20.2 The Executive acknowledges that during her Employment she will have access to and process, or authorise the processing of, personal data and sensitive personal data relating to employees, customers and other individuals held and controlled by the Company. The Executive agrees to comply with the terms of the Act in relation to such data and to abide by the Company's data protection policy issued and updated from time to time.

21 Contracts (Rights of Third Parties) Act 1999

21.1 To the extent permitted by law, no person other than the parties to this agreement and the Group Companies shall have the right to enforce any term of this agreement under the Contracts (Rights of Third Parties) Act 1999. For the avoidance of doubt, save as expressly provided in this clause the application of the Contracts (Rights of Third Parties) Act 1999 is specifically excluded from this agreement, although this does not affect any other right or remedy of any third party which exists or is available other than under this Act.

22 Miscellaneous

22.1 This agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this agreement by executing any such counterpart.

22.2 This agreement may only be modified by the written agreement of the parties.

22.3 The Executive cannot assign this agreement to anyone else.

22.4 References in this agreement to rules, regulations, policies, handbooks or other similar documents which supplement it, are referred to in it or describe any pensions or other benefits arrangement are references to the versions or forms of the relevant documents as amended or updated from time to time.

22.5 This agreement supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in it. It (together with the Company rules and policies) contains the whole agreement between the parties relating to the Employment at the date the agreement was entered into (except for those terms implied by law which cannot be excluded by the agreement of the parties). The Executive acknowledges that she has not been induced to enter into this agreement by any representation, warranty or undertaking not expressly incorporated into it. The Executive agrees and acknowledges that her only rights and remedies in relation to any representation, warranty or undertaking made or given in connection with this agreement (unless such representation, warranty or undertaking was made fraudulently) will be for breach of the terms of this agreement, to the exclusion of all other rights and remedies (including those in tort or arising under statute).

22.6 Neither party's rights or powers under this agreement will be affected if:

22.6.1 one party delays in enforcing any provision of this agreement; or

22.6.2 one party grants time to the other party.

22.7 The Interpretation Act 1978 shall apply to this agreement in the same way as it applies to an enactment.

22.8 References to any statutory provisions include any modifications or re-enactments of those provisions.

22.9 Headings will be ignored in construing this agreement.

22.10 If either party agrees to waive its rights under a provision of this agreement, that waiver will only be effective if it is in writing and it is signed by that party. A party's agreement to waive any breach of any term or condition of this agreement will not be regarded as a waiver of any subsequent breach of the same term or condition or a different term or condition.

22.11 This agreement is governed by and will be interpreted in accordance with the laws of England and Wales. Each of the parties submits to the exclusive jurisdiction of the English Courts as regards any claim or matter arising under this agreement.

THE COMMON SEAL of **NATIONAL GRID ELECTRICITY TRANSMISSION PLC** was affixed to this **DEED** in the presence of:

/s/ Alison Kay

Authorised Signatory

Member of Board Sealing Committee

EXECUTED as a **DEED** by **NICOLA SHAW** in the presence of: } /s/ Nicola Shaw

Witness's signature	L Innes
Name	Lynne Innes
Address	18 Heron Lane Stratford Upon Avon
Occupation	PA

EXHIBIT 4(c).12

9 February 2017

Pierre Dufour
Schumannstrasse 29
Frankfurt 60325
Germany

Dear Pierre

Appointment as Non-executive Director

Subject to final approval by the Board of National Grid plc (the "**Company**"), I am delighted to advise that your appointment as a Non-executive Director of the Company will be effective from 16 February 2017. This letter sets out the terms of your appointment. It is agreed that this is a contract for services and not a contract of employment.

Appointment

Your appointment, commencing on 16 February 2017, will be subject to your election by shareholders at the Company's Annual General Meeting ("AGM") in 2017, following which it is expected that you will be subject to annual re-election by shareholders in accordance with our commitment to best practice, unless your appointment is otherwise terminated earlier in accordance with the Company's Articles of Association as amended from time to time (the "Articles") or by and at the discretion of either the Board or you upon 1 month's written notice. Continuation of your contract of appointment is therefore contingent on satisfactory performance and re-election by shareholders at forthcoming AGMs.

In the event that shareholders do not support your appointment or other shareholder action terminates your appointment you will not be entitled to receive damages for breach of contract and will not be entitled to any other compensation (or payment in lieu of notice).

Non-executive Directors are typically expected to serve two three-year terms, subject to the terms of this letter; any extension to this is subject to review by the Nominations Committee (prior to making recommendations to the Board) having regard to corporate governance best practice from time to time.

Time Commitment

Overall we anticipate a time commitment of approximately 2-2$^1/_2$ days on average per month, after the induction phase, taking into account reading and preparation time for Board and Committee meetings. This will include attendance at Board meetings (estimated 9 scheduled meetings per year including Board strategy session(s) – (of which currently 3 are held in the US) plus ad hoc and emergency meetings, Committee meetings, the AGM, any extraordinary general meetings. It is planned that certain Board meetings will be held at the Company's operational sites (in the UK and US).

Post induction, as a Non-executive Director you will also be expected to undertake at least one site visit per year to the business, the location to be agreed with myself or the Chief Executive.

In addition, you will be expected to devote appropriate preparation time ahead of each meeting and such other time as is reasonably required to discharge your duties as a Director (for example if the Company is involved in increased activity because it is involved in a major transaction).

If you are unable to attend a meeting, you should notify the Group General Counsel & Company Secretary and prior to the meeting communicate your opinions and comments on the matters to be considered to me or the relevant Committee chairman so they can be taken into account at the meeting.

By confirming this appointment, you have agreed that you are able to allocate sufficient time to meet the expectations of your role including appropriate preparation time. My agreement should be sought before accepting additional commitments that might affect the time you are able to devote to your role as a Non-executive Director of the Company.

Role

All Directors, both Non-executive and Executive, have the same general legal responsibilities to the Company. The Board as a whole is collectively responsible for debating and approving the strategic direction of the Company and for promoting the success of the Company for the benefit of its members by directing and supervising the Company's affairs. All Directors must therefore take decisions objectively in the interests of the Company, in compliance with their statutory and fiduciary duties, and not do anything which is harmful to the Company or its business.

All directors are expected to comply with the Company's policies, procedures, rules and regulations from time to time in force, including in particular, the Company's Standards of Ethical Business Conduct and its Share Dealing Code.

The Board:

- provides effective business leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance; and
- sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

In addition to these requirements of all Directors, the role of the Non-executive Director has the following key elements:

- **Strategy:** Non-executive Directors should constructively challenge and contribute to the development of strategy;
- **Performance:** Non-executive Directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- **Risk:** Non-executive Directors should satisfy themselves that the financial function of the Company is professionally managed and that financial controls and systems of risk management are robust and defensible; and

- **People:** Non-executive Directors are responsible for determining appropriate levels of remuneration for Executive Directors and have a prime role in appointing, and where necessary removing, senior management, and in succession planning.

You should also have regard to the Guidance on Board Effectiveness, issued by the Financial Reporting Council in March 2011, of which an extract summarising the role of a Non-executive Director is set out at Schedule 1 to this letter.

<u>Committees</u>

Initially, you have been invited to serve on the Safety, Environment and Health Committee and the Remuneration Committee. This is subject to change from time to time, as determined by the Board.

In addition, all Non-executive Directors are members of the Nominations Committee, meetings of which are held on an ad hoc basis. No fee is paid for Nominations Committee attendance.

This letter refers to your appointment as a Non-executive Director of the Company. Terms of Reference of all Board Committees are set out in the Directors' information pack which will be sent to you shortly.

<u>Fees</u>

This letter sets out the only payments you will receive for performing your duties in accordance with this letter. Accordingly, no other remuneration or benefits will be provided and, in particular, you will not participate in any of the Company's remuneration or benefit programmes, arrangements, schemes or plans.

As a non UK-based Director, you will be paid £78,000 per annum and you will also be entitled to a Committee membership fee of £9,000 per annum, per Committee membership. NB: The Committee membership fee does not apply to the Nominations Committee which meets on an ad hoc basis.

These payments will be made monthly on or around 15th day of each month and will be pro-rated from the date of your appointment. You will not receive any further fees for membership of, or attendance at, any ad hoc Board or Committee meetings. If, for a reason related to illness, disability or injury, you are unable to carry out your duties, payment of any fee(s) during any period of incapacity will be at the discretion of the Board.

The Company will reimburse you, in accordance with the Articles and any expenses procedures from time to time in force, for any reasonable expenses properly incurred in performing your duties. All expenses must be properly documented. Details regarding travel are set out in the Travel Guidelines for Directors document in the Directors information pack, which may change from time to time.

The Executive Committee and Board shall review the above fees from time to time and they are therefore subject to change. All fees and payments will be made subject to any tax or other deductions required to be made by the Company.

Outside interests

It is accepted and acknowledged that you have business interests other than those of the Company. As a condition to your appointment commencing you are required to declare any such directorships, appointments and interests in writing.

In the event that you become aware of any potential conflicts of interest, these should be disclosed to me and/or the Group General Counsel & Company Secretary as soon as apparent. Additionally, if at any time you are considering acquiring any new business interest (including as described in the letter to you regarding initial disclosures on appointment), you should raise the matter initially with me and/or the Group General Counsel & Company Secretary. Where an interest may give rise to a conflict of interest with the Company or any of its subsidiaries or associate companies, the interest may need to be disclosed to the Board and its prior consent obtained.

Independent status

The Board has determined you to be independent according to the provisions of the UK Corporate Governance Code. As an independent Director it is important that you remain independent in character and judgement. If you become aware of anything that may affect, or could appear to affect, this determination of independence, this should be disclosed to me and/or the Group General Counsel & Company Secretary as soon as apparent.

Confidentiality

You will, naturally, during your appointment and following its termination not disclose or communicate to any person (except as required by law or in the course of the proper performance of your duties under this letter, or with the consent of the Board) nor use for your own account or advantage any private or confidential information in any form whatsoever relating to the Company or any of its subsidiaries or associate companies ("Confidential Information") which you obtained during your appointment or otherwise. Additionally, you will use your best endeavours to prevent the unauthorised use or disclosure of any such Confidential Information.

This restriction will continue to apply after your appointment ends without limit in time but will not apply to information which becomes public, unless through unauthorised disclosure by you. After your appointment ends you will return all documents and information (whether written, visual or electronic) under your control which belong to the Company.

Your attention is also drawn to the requirements under both legislation and regulation together with Company policies and procedures as to the disclosure of 'inside' or 'price sensitive' information. Consequently you should avoid making any statements that might risk a breach of these requirements without prior clearance from me or the Group General Counsel & Company Secretary.

Induction

You will be provided with a comprehensive, formal and tailored induction to the Company and its businesses based on your experience and background and on which Committees you are to serve. You will also receive a Directors' information pack comprising information on the Company's businesses and operations together with matters relating to corporate governance and corporate responsibility. We will also arrange various site visits and meetings with senior and middle management and the Company's auditors. We will also arrange for you to meet major shareholders as appropriate.

Should you feel you require additional information on any area please contact the Group General Counsel & Company Secretary to arrange this.

Review Process

The performance of individual Directors, the Board and Board Committees is evaluated annually. If, in the interim, there are any matters which cause you concern in relation to your role you should discuss them with me as soon as is appropriate. I will also regularly review and agree your training and development needs.

Directors' Indemnity and Liability Insurance

In the event that you are made a party or are threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that you are or were a director of the Company, the Company shall indemnify you against expenses (including legal fees) actually and reasonably incurred by you in connection with such action, suit or proceeding and against judgments, fines and amounts paid in settlement in connection with such action, suit or proceeding to the fullest extent permitted by the Companies Act 2006 as amended and any other applicable law or regulation, as from time to time in effect. Such right of indemnification shall be without prejudice to any other rights to which you may be entitled. The terms and conditions of this indemnity are set out in a separate deed of indemnity entered into or to be entered into between you and the Company.

The Company has Directors' and Officers' liability insurance and currently intends to maintain such cover for the full term of your appointment. A summary of the cover is included in your Directors' information pack.

Independent Professional Advice

Occasions may arise when you consider that you need independent professional advice in the furtherance of your duties as a Director. Please advise me or the Group General Counsel and Company Secretary should you wish to seek such advice. The Company will reimburse the full cost of expenditure incurred in respect of such advice, in accordance with the UK Corporate Governance Code and any relevant Company policy.

Disclosure of interests in transactions and Dealings in Shares

Under the Companies Act 2006, where a Director of a company is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company or one that has been entered into by the Company, he must declare the nature and extent of that interest. You may give any such notice at a meeting of the Directors, in writing or by general notice.

During the continuance of your appointments you will be expected to comply (and to procure that your spouse and dependant children comply) where relevant with any rule of law or regulation of any competent authority or of the Company from time to time in force in relation to dealings in shares, debentures and other securities of the Company and unpublished price sensitive information affecting the shares, debentures and other securities of the Company. A copy of the Company's Share Dealing Code is provided in the Directors' information pack.

You should also have regard to, and your appointment is subject to, your duties as a Director in light of the Articles, applicable general law, the Companies Act 2006, the Listing, Prospectus, Disclosure and Transparency Rules of the Financial Services Authority, the UK Corporate Governance Code and obligations arising as a result of the Company's American Depositary Shares being listed on the New York Stock Exchange, as set out in the relevant section of the Directors' information pack.

The Company currently has no share ownership requirements for its non-executive directors.

Governing Law

The agreement contained in this letter and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with English law and shall be subject to the exclusive jurisdiction of the English courts.

Entire Agreement

This appointment letter represents the entire understanding, and constitutes the whole agreement, in relation to your appointment and supersedes any previous agreement between yourself and the Company with respect thereto.

On a personal level, I am delighted that you have agreed to accept this appointment to the Board of the Company and I look forward to our building a good working relationship.

Please acknowledge receipt and acceptance of the above terms by signing and returning the enclosed copy of this letter.

Yours sincerely

/s/ Sir Peter Gershon
Chairman
For and on behalf of National Grid plc

I hereby acknowledge receipt of and accept the terms set out in this letter.

Signed /s/Pierre Dufor……………………………….
Pierre Dufour

Dated …February 13, 2017…………………………….

Schedule 1

Guidance for Non-Executive Directors

(extracted from the March 2011 FRC Guidance on Board Effectiveness)

A non-executive director should, on appointment, devote time to a comprehensive, formal and tailored induction which should extend beyond the boardroom. Initiatives such as partnering a non-executive director with an executive board member may speed up the process of him or her acquiring an understanding of the main areas of business activity, especially areas involving significant risk. The director should expect to visit, and talk with, senior and middle managers in these areas.

Non-executive directors should devote time to developing and refreshing their knowledge and skills, including those of communication, to ensure that they continue to make a positive contribution to the board. Being well-informed about the company, and having a strong command of the issues relevant to the business, will generate the respect of the other directors.

Non-executive directors need to make sufficient time available to discharge their responsibilities effectively. The letter of appointment should state the minimum time that the non-executive director will be required to spend on the company's business, and seek the individual's confirmation that he or she can devote that amount of time to the role, consistent with other commitments. The letter should also indicate the possibility of additional time commitment when the company is undergoing a period of particularly increased activity, such as an acquisition or takeover, or as a result of some major difficultly with one or more of its operations.

Non-executive directors have a responsibility to uphold high standards of integrity and probity. They should support the chairman and executive directors in instilling the appropriate culture, values and behaviours in the boardroom and beyond.

Non-executive directors should insist on receiving high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, board meetings. High-quality information is that which is appropriate for making decisions on the issue at hand – it should be accurate, clear, comprehensive, up-to-date and timely; contain a summary of the contents of any paper; and inform the director of what is expected of him or her on that issue.

Non-executive directors should take into account the views of shareholders and other stakeholders, because these views may provide different perspectives on the company and its performance.

Exhibit 12.1

RULE 13a-14(a) CERTIFICATION

I, John Pettigrew, certify that:

1. I have reviewed this annual report on Form 20-F of National Grid plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: 6 June 2017

/s/ John Pettigrew

John Pettigrew
Title: Chief Executive
National Grid plc

Exhibit 12.2

RULE 13a-14(a) CERTIFICATION

I, Andrew Bonfield, certify that:

1. I have reviewed this annual report on Form 20-F of National Grid plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: 6 June 2017

/s/ Andrew Bonfield

Andrew Bonfield
Title: Finance Director
National Grid plc

EXHIBIT 13.1

RULE 13a-14(b) CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18 of the United States Code) each of the undersigned officers of National Grid plc, a public limited company incorporated under the laws of England and Wales (the "Company"), hereby certifies to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ending 31 March 2017 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: 6 June 2017	/s/ John Pettigrew John Pettigrew Title: Chief Executive National Grid plc
Date: 6 June 2017	/s/ Andrew Bonfield Andrew Bonfield Title: Finance Director National Grid plc

Exhibit 15

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (No. 333-33094, 333-65968, 333-97249, 333-103768, 333-107727, 333-149828, 333-155527, 333-170716, 333-175852, 333-184558) and Form F-3ASR (No. 333-205710) of National Grid plc of our report dated May 17, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers LLP
London, United Kingdom
June 6, 2017.