

BRITISH TRANSCO INTERNATIONAL
FINANCE B.V.

Amsterdam, the Netherlands

Annual Report
for the year ended 31 March 2017

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BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

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BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Directors' Report

The Management Board of British Transco International Finance B.V. ('the Company') herewith submits its Annual Report for the year ended 31 March 2017.

Summary of activities

The principal activity of the Company is to act as a finance company for National Grid Gas Plc., its sole shareholder, incorporated in England. As such, the Company has emitted a bond loan and all loan proceeds have been placed at the disposal of its parent company, which in turn has guaranteed repayment of the bond loan to the bond holders. The Company has no employees and no investments other than in loans.

During the year under review the Company received a repayment of its shareholder loan of EUR 446,338,659 (USD 473,386,781) against a fair value of EUR 341,979,288 (USD 362,703,233) resulting in a gain from repayment of EUR 104,359,370 (USD 110,683,548). Subsequently the Company repurchased zero coupon bearer bonds from its bondholders with an aggregate nominal amount of USD 531,250,000 against a consideration of EUR 446,338,659 (USD 473,386,781). The fair value at the moment of repurchase amounted to EUR 341,979,288 (USD 362,703,233) resulting in a loss on repurchase of EUR 104,359,370 (USD 110,683,548). The remaining nominal value of the bonds after the repurchase amounts to USD 942,750,000.

Results for the year

The profit for the year is EUR 427,903 (p.y. EUR 891,684). This result is mainly the result of a spread on the proceeds of bearer bonds which have been lent to the shareholder of the Company. The lower result for this year compared to previous year is mainly caused by the development of the EUR/USD exchange rate during the year and a relatively lower spread as a result of the repurchase of the zero coupon bearer bonds and the shareholder loan. Per 31 March 2017 the Company's current ratio is 9.4 (p.y. 8.32).

There have been no unusual events during the reporting year other than the repurchase of the bond.

Financial risk management

The Company does not have any significant exposure with regard to interest rate or foreign currency risk. The financial risks for the Company are considered to be limited. All incoming loans and bonds issued are guaranteed by the shareholder. The Company maintains a capital of EUR 4,473,599 (p.y. EUR 3,783,716), being its equity at risk to comply with the Dutch tax practice for group finance companies. Apart from the credit risk on the outstanding loans to the shareholder, due to the back to back nature of the bond loan and the loan to the shareholder, the financial risk the Company bears is limited to the amount of capital and reserves, which according to the advanced pricing agreements made with the fiscal authorities is required to be set at a minimum of EUR 2,000,000. The objective of the Company is not to bear any more financial risks. See also note 3 to the financial statements.

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Principal risks and uncertainties

The principal risks and uncertainties facing the company for risk management purposes are as the following:

Credit risk

Credit risk is the risk of financial loss to the Company if a financial instrument of a counter party fails to meet its contractual obligations, and arises principally from the Company's receivables from the shareholder. The Company issued bonds under the guarantee of its shareholder, National Grid Gas Plc., and therefore is exposed to the market conditions which affect National Grid Gas Plc.

National Grid's Group Treasury team maintain frequent contact with Moody's Investor Services (Moody's), Standard and Poor's Rating Services (S&P) and Fitch Ratings and ensure that the agencies are kept aware of significant developments in the Group of which the Company is part of. Senior members of National Grid's management team also meet with these agencies formally, usually at least once in each fiscal year, to discuss the anticipated performance of the Group. The long- and short-term credit ratings of National Grid Gas Plc., the Company's shareholder, are A3/P2 (Moody's), A-/A2 (Standard & Poor's) and A/F2 (Fitch). The management of the Company periodically reviews the credit rating of its shareholder to assess if there is an increased risk of uncollectibility with regard to its receivable from its shareholder.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards for corporate behaviour. More specific, possible upcoming changes in local and UK tax law are considered to be an operational risk which might have impact on fiscal treatment of the Company's taxable result and might result in additional taxes due. The developments in local and UK tax law are carefully monitored by the Company's external group and local tax advisor and the consequences of these developments are reported periodically to the management of the Company.

Operational risks arise from all of the company's operations. The company was incorporated with the purpose of engaging in those activities outlined under summary of activities. All administrative functions have been outsourced by the company.

Sensitivity analysis

The management consider the chance that the above-mentioned risks will occur to be minimal and therefore has not performed a sensitivity analysis.

Future outlook

The results in future years will be mainly influenced by the profit margin on the present and future financing activities.

On 28 July 2017, the Company expects to move its issued bonds from the Main Market of the London Stock Exchange to the Professional Securities Market of the London Stock Exchange.

Post-balance sheet events

No post-balance sheet events affecting the financial statements, herewith presented or which require separate disclosure have occurred to date.

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Activities in the field of research and development

The Company is not engaged in such activities.

Management Board/Supervisory board

The Company has taken notice of adopted legislation effective as of 13 April 2017 as a consequence of which The Company, when nominating or appointing members of the Management Board or Supervisory Board, should take into account as much as possible a balanced composition of these Boards in terms of gender, to the effect that at least 30 per cent of the positions are held by women and at least 30 per cent by men.

The current composition of the Management Board deviates from the above-mentioned percentages. With regards to future appointments, the Management Board will take gender diversity objectives into account as much as possible.

Audit Committee

The Company makes use of the exemption to establish its own Audit Committee, based on Article 3a. of the Royal Decree of 26 July 2008 implementing article 41 of the EU Directive 2006/43/EG. The Audit Committee of the parent company, National Grid Gas Plc., is acting as Audit Committee for the Company.

The Management Board



D.A. Preston



TMF Netherlands B.V.

Amsterdam, 25 July 2017


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Conformity statement

As required by section 5:25c subsection 2(c) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), the members of the Board of Directors hereby confirm that to the best of their knowledge:

- The British Transco International Finance B.V. financial statements for the year ended 31 March 2017 give a true and fair view of the assets, liabilities, financial position and income of British Transco International Finance B.V., in accordance with Title 9, Book 2 of the Dutch Civil Code;
- The British Transco International Finance B.V. directors' report for the year ended 31 March 2017 gives a true and fair view of the position of British Transco International Finance B.V. at the end of the reporting year and of the development and performance of the business during the reporting year, together with a description of the principal risks British Transco International Finance B.V. is subject to.

The Management Board


D.A. Preston


TMF Netherlands B.V.

Amsterdam, 25 July 2017

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Balance Sheet for the year ended 31 March 2017
(Before appropriation of results and expressed in EUR)

	<u>Notes</u>	<u>31 March 2017</u>	<u>31 March 2016</u>
FIXED ASSETS			
Financial fixed assets			
Revolving loan to shareholder	4	3,476,380	2,755,338
Loans to shareholder	5	607,105,439	817,828,367
		<u>610,581,819</u>	<u>820,583,705</u>
CURRENT ASSETS			
Receivables			
Interest receivable from shareholder		3,661	14,128
Accounts receivable from shareholder	6	1,055,325	1,010,393
		<u>1,058,986</u>	<u>1,024,521</u>
Cash at banks	7	57,022	144,421
		<u>1,116,008</u>	<u>1,168,942</u>
CURRENT LIABILITIES			
Corporation tax payable		33,558	90,011
Accrued expenses		85,231	50,553
		<u>118,789</u>	<u>140,564</u>
CURRENT ASSETS LESS CURRENT LIABILITIES		<u>997,219</u>	<u>1,028,378</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>611,579,038</u>	<u>821,612,083</u>
LONG-TERM DEBT			
Bearer bonds	8	607,105,439	817,828,367
		<u>607,105,439</u>	<u>817,828,367</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		4,473,599	3,783,716
SHAREHOLDER'S EQUITY			
Issued share capital	9	228,765	228,765
Currency translation reserve		779,620	517,640
Retained earnings		3,037,311	2,145,627
Profit for the year		427,903	891,684
		4,473,599	3,783,716

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BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Profit and Loss Account for the year ended 31 March 2017

(Expressed in EUR)

	<u>Notes</u>	<u>Year ended 31 March 2017</u>	<u>Year ended 31 March 2016</u>
FINANCIAL INCOME AND EXPENSES			
Interest and similar income from loans to shareholder	10	176,389,427	67,442,710
Interest and similar expense on zero coupon bearer bonds	11	-175,333,920	-66,412,696
Bank interest		-8	-41
Other Interest		0	2,264
Exchange differences		-261,556	173,089
		<u>793,943</u>	<u>1,205,326</u>
OTHER EXPENSES			
General and administrative expenses	12	-149,412	-96,490
		<u>-149,412</u>	<u>-96,490</u>
RESULT BEFORE TAXATION		<u>644,531</u>	<u>1,108,836</u>
CORPORATION TAX	13	-216,628	-217,152
NET PROFIT FOR THE YEAR		<u>427,903</u>	<u>891,684</u>

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Cash flow statement for the year ended 31 March 2017

(expressed in EUR)

	Notes	Year ended 31 March 2017	Year ended 31 March 2016
CASH FLOW FROM OPERATING ACTIVITIES			
Result for the year before taxation		644,531	1,108,836
Exchange results added to currency translation reserve	9	261,980	-174,479
		<u>906,511</u>	<u>934,357</u>
Movements in working capital			
Increase in accounts receivable from group companies	6	-44,932	-152,432
Increase revolving loan	4	-1,021,042	-873,335
Decrease / (increase) interest receivable		10,467	-4,247
Increase accrued expenses		34,678	2,507
		<u>-1,020,829</u>	<u>-1,027,507</u>
Income taxes paid	13	-273,081	-209,491
Cash used in operations		<u>-387,399</u>	<u>-302,641</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment received on loan to shareholder	5	446,338,659	0
Repayment received on revolving loan	4	300,000	150,000
Net cash generated from investing activities		<u>446,638,659</u>	<u>150,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment made to bearer bond holders	8	-446,338,659	
Net cash used in financing activities		<u>-446,338,659</u>	<u>0</u>
NET DECREASE IN CASH		<u>-87,399</u>	<u>-152,641</u>
Cash at banks beginning of the year		144,421	297,062
Cash at banks end of the year	7	<u>57,022</u>	<u>144,421</u>

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017 **(All tabular amounts are, unless otherwise stated, expressed in Euros)**

1. General

British Transco International Finance B.V. ("the Company") was established in Rotterdam on 18 January 1982. The statutory seat is Rotterdam, the Netherlands. The address is Herikerbergweg 238, 1101 CM Amsterdam, the Netherlands. The Company is registered at the trade register under number 33.12.6512. The principal activity of the Company is to act as a finance company for National Grid Gas Plc., London, England its sole shareholder. As such, the Company has emitted a bond loan and all loan proceeds have been placed at the disposal of its parent company, which in turn has guaranteed repayment of the bond loan to the bond holders. The Company's ultimate parent company is National Grid Plc., London, England. The financial statements of the Company are included in the consolidated financial statements of its ultimate parent National Grid Plc., London, England which can be obtained from the corporate website <http://investors.nationalgrid.com>.

2. Summary of principal accounting policies

(a) General

The financial statements have been prepared in accordance with the statutory provisions of title 9, book 2, of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The functional currency of the Company is the U.S. Dollar. For practical reasons the presentation currency of these financial statements is the Euro.

The balance sheet, income statement and cash flow statement include references to the notes.

(b) Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying The Company's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), book 2, of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the financial statement items in question.

(c) Assets and liabilities

In general, assets and liabilities (except for equity) are stated at the amounts at which they were acquired or incurred. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred.

(d) Comparison with prior year

Some of the balance sheet items have been named and ordered in a different manor compared to previous year in order to comply with Model A of the Royal Decree models financial statements. The principles of valuation and determination of result remain unchanged compared to previous year.

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Notes to the financial statements for the year ended 31 March 2017

2. Summary of principal accounting policies (cont'd)

(e) Loans to shareholder and revolving loan

The loans receivable from shareholder disclosed under financial fixed assets include loans which are intended to be held to their maturity date. These receivables are initially measured at fair value. These loans and debentures are subsequently carried at amortised cost.

If loans are issued at a discount or premium, the discount or premium is recognised through profit or loss over the maturities of the loans, using the effective interest rate method. Transaction costs are included in the initial valuation. Impairment losses are deducted from amortised cost and expensed in the income statement.

(f) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement. The amount of an impairment loss incurred on financial assets stated at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

(g) Accounts receivable/current liabilities/accruals

Accounts receivable/current and liabilities/accruals are recognised initially at fair value and subsequently measured at amortised cost.

(h) Cash and cash equivalents

Cash and cash equivalents include bank balances and deposits held at call with maturities of less than 12 months. Bank overdrafts will be shown within borrowings in current liabilities on the balance sheet.

Cash and cash equivalents are stated at nominal value.

(i) Long term debt

Borrowings, which are intended to be held to maturity, are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017

2. Summary of principal accounting policies (cont'd)

(j) Foreign currencies

Transactions in foreign currencies are stated in the financial statements at the exchange rate of the functional currency on the transaction date. Monetary assets and liabilities in foreign currencies are converted to the closing rate of the functional currency on the balance sheet date. The translation differences resulting from settlement and conversion are credited or charged to the income statement. Assets and liabilities are translated from the functional currency to the presentation currency at the rate of exchange prevailing at the balance sheet date; income and expenses are translated at the exchange rates on the transaction date. Any resulting exchange differences are taken directly to the legal reserve for translation differences within equity.

(k) Financial instruments

All financial instruments are recognised initially at fair value and are subsequently carried at (amortised) cost.

(l) Determination of result

Other income and expenses are recognised in the year to which they are related. Profit is only recognised when realised on balance sheet date. Losses originating before the end of the financial year are taken into account if they become known before preparation of the financial statements.

(m) Financial income and expenses

Financial income and expenses are recognised on a time-weighted basis, taking into account the effective interest rate of the assets and liabilities concerned.

(n) Exchange differences

Exchange differences are recognised in the income statement in the period that they arise.

(o) General and administrative expenses and other expenses

General and administrative expenses and other expenses comprise costs chargeable to the year that are not directly attributable to bonds and loans.

(p) Corporation tax

Taxation is provided for in accordance with a specific Advance Pricing Agreement applicable to the Company. Reference is made to Note 13. Income tax is recognised in the income statement.

Income tax is calculated on the profit/loss before tax in the income statement, taking into account any losses carried forward from previous financial years (where not included in deferred income tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred income tax assets and liabilities owing to changes in the applicable tax rates.

(q) Cash flow statement

The cash flow statement is prepared according to the indirect method. Corporate income taxes, interest received and paid are stated under the cash flow from operating activities as a result of the nature of the Company's activities. Dividends paid and repayment of the zero coupon bond are recognised as cash used in financing activities. The repayment of the shareholder receivables are stated under cash flow from investing activities.

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Notes to the financial statements for the year ended 31 March 2017

2. Summary of principal accounting policies (cont'd)

(r) Related parties

All entities within the National Grid Plc group are considered to be related parties. Other related parties are the directors of the Company.

3. Financial risk management

Disclosure of management of financial risks

The financial risks for the Company are limited. All loans payable and bonds issued are guaranteed by the shareholder. The Company is required to maintain a capital of EUR 2,000,000, being its equity at risk to comply with the Dutch tax practice for group finance companies. The risk the Company bears is therefore limited to the capital and reserves, which according to the advanced pricing agreements made with the fiscal authorities should be at a minimum of EUR 2,000,000. The objective of the Company is not to bear any more financial risks.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The market risks are limited as all loans payable have equal counter positions which are guaranteed by the shareholder.

Interest and cash flow risks

Interest rate risks are limited as the only loans consist of a shareholder loan receivable and a zero-coupon bond payable with a fixed interest rate.

Foreign currency risk

The foreign currency risks are limited as all major outstanding amounts have equal counter positions which are guaranteed by the shareholder. All non-bond related balances still carry a currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a financial instrument of a counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from the shareholder.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity risks are limited as all interest payments and future repayments of loans are guaranteed by the shareholder. The repayment dates of loans to the shareholder are equal to the long-term debt. The Company retains a minimum equity at risk of EUR 2,000,000.

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Notes to the financial statements for the year ended 31 March 2017

4. Revolving loan

On 4 February 2014 the Company entered into an uncommitted EUR 6,000,000 revolving loan agreement with its shareholder. Interest shall be accrued at a rate per annum equal to LIBOR plus 20bps. No fixed repayment date has been agreed upon. As it is not expected that the loan will be repaid shortly it has been classified as long-term. The shareholder shall repay the outstanding advance with accrued interest upon demand by the Company.

With effect from 1 April 2014 the interest has been calculated on the basis of the number of days elapsed based on 360 days per year instead of 365 days per year. As per 1 April 2016 the accounts receivable balance (EUR 1,010,393) with the shareholder (see note 6) has been added to this revolving loan.

The balance per balance sheet amounts to EUR 3,476,380.

	<u>2016/2017</u>	<u>2015/2016</u>
Balance at the beginning of the year	2,755,338	2,032,003
Addition to loan	1,010,393	857,961
Repayment	-300,000	-150,000
Interest added to the loan	10,649	15,374
Balance at the end of the year	<u>3,476,380</u>	<u>2,755,338</u>

5. Loans to shareholder

In prior years the Company entered into loan agreements with its parent company, National Grid Gas Plc., which are denominated in USD. As at the balance sheet date the following loan was outstanding:

Currency	Issue date	Maturity date	Interest rate	Amount USD	2016/2017	2015/2016
					Amount EUR	Amount EUR
USD	04-May-94	04-Nov-21	8.37863%	646,688,714	607,105,439	817,828,367
Total loans to shareholder					<u>607,105,439</u>	<u>817,828,367</u>

The fair value of the zero coupon loan to the shareholder of the Company with a carrying amount of EUR 607,105,439, amounted to EUR 781,441,687 at 31 March 2017 (31 March 2016: EUR 1,100,446,434). We calculate the fair value by discounting all future cash flows by the market yield curve, at the balance sheet date, including the credit spread for debt. The market yield curve with respect to the USD currency is obtained from external sources for interest and foreign exchange rates.

During the year under review the Company received a repayment of its shareholder loan of EUR 446,338,659 (USD 473,386,781) against a carrying value of EUR 341,979,288 (USD 362,703,233) resulting in a gain from repayment of EUR 104,359,370 (USD 110,683,548), (note 10).

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017

5. Loans to shareholder (continued)

Subsequently the Company repurchased zero coupon bearer bonds from its bondholders with an aggregate nominal amount of USD 531,250,000 against a consideration of EUR 446,338,659 (USD 473,386,781). The carrying value at the moment of repurchase amounted to EUR 341,979,288 (USD 362,703,233) resulting in a loss on repurchase of EUR 104,359,370 (USD 110,683,548), (note 11). The remaining nominal value of the bonds after the repurchase amounts to USD 942,750,000.

The following movements occurred:

	Loan to shareholder			Total
	<1 year	between 1-5 years	> 5 years	
Book value 1 April 2015	0	0	798,801,859	798,801,859
Interest accrued zero coupon	0	0	66,412,696	66,412,696
Difference from translation to presentation currency	0	0	-47,386,188	-47,386,188
Book value 31 March 2016	<u>0</u>	<u>0</u>	<u>817,828,367</u>	<u>817,828,367</u>

	Loan to shareholder			Total
	<1 year	between 1-5 years	> 5 years	
Book value 1 April 2016	0	0	817,828,367	817,828,367
Interest accrued zero coupon prior to repurchase	0	0	68,144,438	68,144,438
Carrying value of loan repaid	0	0	-341,979,288	-341,979,288
Interest accrued zero coupon after repurchase	0	0	2,830,112	2,830,112
Difference from translation to presentation currency	0	0	60,281,810	60,281,810
Book value 31 March 2017	<u>0</u>	<u>0</u>	<u>607,105,439</u>	<u>607,105,439</u>

6. Accounts receivable from shareholder

This amount is due from National Grid Gas Plc. and bears no interest. All receivables fall due in less than one year. All amounts receivable are due upon demand and have therefore been classified as current. The carrying value of the accounts receivable from shareholder approximates the fair value.

7. Cash at banks

Cash at banks consists of current account balances in a total amount of EUR 57,022 (p.y. EUR 144,421), which are available on demand. There are no restrictions on the current accounts.

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Notes to the financial statements for the year ended 31 March 2017

8. Bearer bonds

The Company issued listed bearer bonds (listed at the London Stock Exchange). The funds have been used to issue loans to the shareholder of the Company. As at the balance sheet date the following bond was outstanding:

Currency	Issue date	Maturity date	Interest rate	Amount USD	2016/2017	2015/2016
					Amount EUR	Amount EUR
USD	05-Nov-91	04-Nov-21	8.37863%	646,688,714	607,105,439	817,828,367
Total bearer bonds					607,105,439	817,828,367

On 5 November 1991 the Company issued zero coupon bearer bonds of in total USD 1,474,000,000 (based on nominal value), due on 4 November 2021. A discounted value of USD 127,850,000, based upon a discount factor of 8.37863% per annum, was received at the date of issuance.

The bonds and all other liabilities of the Company are guaranteed by National Grid Gas Plc. The original currency description of the loan is stated above.

The fair value of the bonds with a carrying amount of EUR 607,105,439 amounted to EUR 781,441,687 at 31 March 2017 (31 March 2016: EUR 1,100,446,434). We calculate the fair value by discounting all future cash flows by the market yield curve, at the balance sheet date, including the credit spread for debt. The market yield curve with respect to the USD currency is obtained from external sources for interest and foreign exchange rates.

During the year under review the Company received a repayment of its shareholder loan of EUR 446,338,659 (USD 473,386,781) against a carrying value of EUR 341,979,288 (USD 362,703,233) resulting in a gain from repayment of EUR 104,359,370 (USD 110,683,548), (note 10). Subsequently the Company repurchased zero coupon bearer bonds from its bondholders with an aggregate nominal amount of USD 531,250,000 against a consideration of EUR 446,338,659 (USD 473,386,781). The carrying value at the moment of repurchase amounted to EUR 341,979,288 (USD 362,703,233) resulting in a loss on repurchase of EUR 104,359,370 (USD 110,683,548), (note 11). The remaining nominal value of the bonds after the repurchase amounts to USD 942,750,000.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended at 31 March 2017

8. Bearer bonds (cont'd)

The following movements occurred:

	Bonds			Total
	<1 year	between 1-5 years	> 5 year	
Book value 1 April 2015	0	0	798,801,859	798,801,859
Interest accrued zero coupon bond	0	0	66,412,696	66,412,696
Difference from translation to presentation	0	0	-47,386,188	-47,386,188
Book value 31 March 2016	<u>0</u>	<u>0</u>	<u>817,828,367</u>	<u>817,828,367</u>

	Bonds			Total
	<1 year	between 1-5 years	> 5 year	
Book value 1 April 2016	0	0	817,828,367	817,828,367
Interest accrued zero coupon bond prior to repurch.	0	0	68,144,438	68,144,438
Carrying value of bonds repurchased	0	0	-341,979,288	-341,979,288
Interest accrued zero coupon bond after repurchase currency	0	0	2,830,112	2,830,112
Book value 31 March 2017	<u>0</u>	<u>0</u>	<u>607,105,439</u>	<u>607,105,439</u>

9. Capital and reserves

The authorised share capital of the Company consists of 2,500 ordinary shares of EUR 453 each amounting to EUR 1,132,500. As at 31 March 2017 505 shares were issued and fully paid up.

The movements in capital and reserves can be summarised as follows:

	Issued share capital	Currency translation reserve	Retained earnings	Profit for the year	Total
Balance as at 1 April 2016	228,765	517,640	2,145,627	891,684	3,783,716
Result current year	0	0	0	427,903	427,903
Addition/release	0	261,980	0	0	261,980
Balance as at 31 March 2017	<u>228,765</u>	<u>779,620</u>	<u>2,145,627</u>	<u>1,319,587</u>	<u>4,473,599</u>

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017

10. Interest and similar income from loans to shareholder

	<u>2016/2017</u>	<u>2015/2016</u>
Interest zero coupon prior to repurchase	68,144,438	66,412,696
Gain on redeemed portion of the loan (note 5)	104,359,370	0
Interest accrued zero coupon after repurchase	2,830,112	0
Interest revolving loan	182	19,621
Spread for the year	1,055,325	1,010,393
	<u>176,389,427</u>	<u>67,442,710</u>

The spread on the interest zero bond is calculated based on 12.5 basis point remuneration as under the previous applicable Advance Pricing Agreement.

The interest on the revolving loan amounts to 1 year Libor +20bp.

11. Interest and similar expense on zero coupon bearer bonds

The total interest expense is equal to the total interest income minus the spread of EUR 1,055,325 and minus the interest revolving loan of EUR 182.

	<u>2016/2017</u>	<u>2015/2016</u>
Interest accrued zero coupon bond prior to repurchase	68,144,438	66,412,696
Loss on repurchase zero coupon bonds (note 8)	104,359,370	0
Interest accrued zero coupon bond after repurchase	2,830,112	0
	<u>175,333,920</u>	<u>67,442,710</u>

12. General and administrative expenses

	<u>2016/2017</u>	<u>2015/2016</u>
Accounting fees	97,669	45,709
Audit fees	42,176	41,796
Tax advisors fees	3,249	5,883
Other general (income)/expenses	6,318	3,102
	<u>149,412</u>	<u>96,490</u>

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017

13. Corporation tax

The taxable profit of the Company is computed on the basis of an Advance Pricing Agreement with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans as well as covering any exchange and interest rate risks by way of swap agreements or other hedging procedures. The past Advanced Pricing Agreement expired. The Company has decided not to apply for a new Advanced Pricing Agreement, but to proceed according to the assumptions as under the expired Advanced Pricing Agreement.

	<u>2016/2017</u>	<u>2015/2016</u>
Result before income tax	644,531	1,108,836
Correction for exchange results	<u>261,980</u>	<u>-174,479</u>
	906,511	934,357
Income tax expenses	<u>216,628</u>	<u>217,152</u>
effective tax rate	23.9%	23.2%
applicable tax rate < 200,000	20%	20%
applicable tax rate > 200,000	25%	25%

The effective tax rate is lower than the applicable tax rate due to imputed interest income for tax purposes.

14. Proposed appropriation of results

The management proposes that the result for the past year will be carried forward. This proposal is not yet reflected in the financial statements.

15. Post-balance sheet events

No major post-balance sheet events have occurred since 1 April 2017 that would make the present financial position substantially different from that shown in the balance sheet at year-end.

16. Directors

The Directors received an amount of EUR 2,750 in respect of their services during the year (year 2015/2016: EUR 2,725). After year-end it was resolved to honourably discharge Mrs. F.L. Beany from her position as managing director and appoint Mr. D.A. Preston instead.

17. Staff number and employment costs

The Company has no employees, and hence incurred no wages, salaries and related social security premiums during the year or previous year.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2017

18. Related parties

Except for the loans, accounts receivables and interest receivables, as outlined in note 4,5 and 6 above, from the shareholder, the interest income from the shareholder, as outlined in note 10 above, the Company has no other transactions or outstanding positions with related parties.

19. Independent auditor's remuneration

With reference to Section 2:38a, (1) and (2) book 2, title 9 of the Netherlands Civil Code, the following fees for the year have been charged by PricewaterhouseCoopers Accountants N.V. The fees disclosed relate to the year in which services were rendered.

	<u>2016/2017</u>	<u>2015/2016</u>
Audit of financial statements	42,176	41,796
Other audit procedures	0	0
Tax services	0	0
Other non-audit services	0	0
	<u>42,176</u>	<u>41,796</u>

20. Commitments and contingencies not included in the balance sheet

There are no commitments and contingencies per 31 March 2017. No pledges are applicable. The bonds and all other liabilities of the Company are guaranteed by National Grid Gas Plc. On 4 February 2014 the Company entered into an uncommitted EUR 6,000,000 revolving loan agreement with its shareholder to which a variation agreement has been drawn up to change the day basis used for the calculation of interest effective from 1 April 2014. The Company retains a minimum equity at risk of EUR 2,000,000.

The Management Board


D. A. Preston


TMF Netherlands B.V.

Amsterdam, 25 July 2017

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Supplementary Information

Retained earnings

Subject to the provision under Dutch law that no dividends can be declared until all losses have been recovered, retained earnings are at the disposal of the shareholders in accordance with Article 14 of the Articles of Association of the Company. Moreover, no distributions may be made if the Management Board is of the opinion that, by such distribution, the Company will not be able to fulfil its financial obligations in the foreseeable future.

Independent auditor's report

The independent auditor's report is set forth on the following page.