Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 22 to 25. 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 operation and maintenance of electricity generation facilities, electricity lines and substations 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.

We commit significant resources and expenditure to process safety and to monitoring safety and occupational health, as well as environmental risks, and to meeting our obligations under negotiated settlements.

We are also 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 whether current, including those inherited from predecessor bodies, 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 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.

For more information about environmental, climate change and health and safety matters relating to our business, see the corporate responsibility section of our website.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations due to the failure of technology supporting our business-critical processes.

Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This 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.

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 will 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.

Due to control weaknesses occurring from the implementation of the US business’s new enterprise resource system, associated controls over financial reporting and related system programme conversion difficulties, we may be unable to provide accurate financial reporting and regulatory compliance reporting in a timely manner, which may include the provision of financial statements. This could result in regulatory fines, penalties, and other sanctions and adversely impact our operations, our reputation and our relationship with our regulators and other stakeholders.

Table of Contents

Business information in detail continued

Risk factors

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 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, 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.

As the result of control weaknesses in our US business, 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 160 to 165, 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 do not implement the transformation projects we are carrying out as envisaged, including to our US financial systems and controls over financial reporting, or are not able to deliver our RIIO operating model and the US Elevate 2015 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.

Growth and business development activity

Failure to respond to external market developments and execute our strategic ambition 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 could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Business development activities and the delivery of our growth ambition, including acquisitions, disposals, joint ventures, partnering and organic investment opportunities (including organic investments made as a result of changes to the energy mix), are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing), and internal uncertainties (including actual performance of our various 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.

Table of Contents

Risk factors

Operating costs may increase faster than revenues.

Income under our price controls in the UK is linked to the RPI. Our operating costs may increase without a corresponding increase in the RPI and therefore without a corresponding increase in UK revenues. Our income under our rate plans in the US is not typically linked to inflation.

In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect the results of our operations.

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. 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.

Due to control weaknesses in our US business, 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, 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. There is also a risk to us where we invest excess cash, 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.

Table of Contents

Internal control

Information assurance

The Board considers that it is imperative to have accurate and reliable information to enable informed and timely decisions to be taken that further our objectives, and to ensure continued focus and quality of non-financial data that we supply to external third parties.

Key elements in managing information assurance risks include education, training, awareness and ongoing transformation initiatives.

In line with ongoing transformation initiatives, we also continue to monitor and evolve our control processes, which is supported by the Certificate of Assurance process in which managers affirm, among other things, they have control frameworks in place to assist in the accurate reporting of data and other information. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions.

All communication channels, including training for ‘Doing the Right Thing’, make it clear that the accurate and honest reporting of data and other information must never be compromised.

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 2014. 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 and Transparency Rules 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 Internal Control-Integrated Framework 1992 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 2014.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2014, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 81.

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.

Table of Contents

Directors' Report disclosures

Articles of Association

A summary of the material terms of our Articles of Association (the Articles) and applicable English Law is set out on page 176.

Board biographies

Sir Peter Gershon CBE FREng, Chairman

Appointment to the Board: August 2011 as Deputy Chairman, Chairman with effect from January 2012
Committee membership: N (ch)
Previous appointments: Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and member of the UK Defence Academy Advisory Board.
External appointments: Chairman of Tate & Lyle plc and the Aircraft Carrier Alliance and member of the HM Government Efficiency and Reform Board and The Sutton Trust Board.
Experience:
- Chairman
- Engineer
- Government
- Partnering/JV/contract management
- City
- High tech industry
- US
- International
- General management

Steve Holliday FREng, Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc 2001, Chief Executive with effect from January 2007.
Committee membership: F
Previous appointments: Executive Director of British Borneo Oil and Gas; he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Most recently Chairman of UK Business Council for Sustainable Energy and the Technician Council.
External appointments: Non-executive Director of Marks and Spencer Group plc, Chairman of Crisis UK, the Prince's National Ambassador, Vice Chair for Business in the Community and Chair of the Energy and Efficiency Industrial Partnership.
Experience:
- Chief Executive
- Engineer
- Government/regulatory
- Partnering/JV/contract management
- City
- Utilities – energy
- Customer
- Oil and gas
- US
- International

Philip Aiken AM, Non-executive Director

Appointment to the Board: May 2008
Committee membership: A, N, S (ch)
Previous appointments: Group President of BHP Billiton's Energy business, Executive Director of BTR plc, held senior roles in BOC Group plc, senior advisor to Macquarie Capital (Europe) Limited, Chairman of Robert Walters plc, Non-executive and Senior Independent Director of Kazakhmys PLC and Non-executive Director of Miclyn Express Offshore Limited.
External appointments: Chairman of AVEVA Group plc, Non-executive and Senior Independent Director of Essar Energy plc and Non-executive Director of Essar Oil Limited and Newcrest Mining Limited.
Experience:
- Chairman
- Partnering/JV/contract management
- Emerging markets
- Natural resources
- International

Andrew Bonfield, Finance Director

Appointment to the Board: November 2010
Committee membership: F, S
Previous appointments: Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.
External appointments: Non-executive Director of Kingfisher plc.
Experience:
- Finance Director
- Accountant
- Government/regulatory
- Partnering/JV/contract management
- City
- Utilities – energy
- Customer
- US
- International

Nora Mead Brownell, Non-executive Director

Appointment to the Board: 1 June 2012
Committee membership: N, R, S
Previous appointments: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners. Board member of ONCOR Electric Delivery Holding Company LLC.
External appointments: Board member of Comverge, Inc. and Spectra Energy Partners LP and partner in ESPY Energy Solutions, LLC.
Experience:
- US Government/regulatory
- US utilities – energy
- FERC
- Various non-executive directorships
- US

Table of Contents

Directors' Report disclosures continued

Jonathan Dawson, Non-executive Director

Appointment to the Board: 4 March 2013
Committee membership: F, N, R (ch)
Previous appointments: Various roles within the Ministry of Defence before joining Lazard where he spent over 20 years. Non-executive Director of Galliford Try plc 2004 to 2008, National Australia Group Europe Limited 2005 to 2012 and Standard Life Investments (Holdings) Limited 2010 to 2013.
External appointments: Non-executive and Senior Independent Director of Next plc, Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman of Penfida Limited.
Experience:

- City
- Corporate finance
- Banking
- Pensions

Therese Esperdy, Non-executive Director

Appointment to the Board: 18 March 2014
Committee membership: F, N
Previous appointments: Joined Chase Securities in 1997, having started her banking career with Lehman Brothers. Various senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and Global Head of Debt Capital Markets at JPMorgan.
External appointments: Co head of Banking, Asia Pacific for JPMorgan Chase & Co.
Experience:

- City
- Corporate finance
- Banking
- US
- International

Paul Golby CBE FREng, Non-executive Director

Appointment to the Board: February 2012
Committee membership: N, R, S
Previous appointments: Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director, Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON board in December 2011 and most recently Non-executive Chairman of AEA Technology Group plc.
External appointments: Chairman of EngineeringUK, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology.
Experience:

- Chairman and chief executive
- Engineer
- Government/regulatory
- City
- Utilities – energy

Ruth Kelly, Non-executive Director

Appointment to the Board: October 2011
Committee membership: A, F, N
Previous appointments: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills and Financial Secretary to the Treasury.
External appointments: Senior Executive at HSBC and Governor for the National Institute of Economic and Social Research.
Experience:

- Government/regulatory
- Partnering/JV/contract management
- Financial and economic
- Infrastructure projects

Tom King, Executive Director, US

Appointment to the Board: August 2007
Previous appointments: President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007, having held a number of senior positions within the PG&E group since joining in 1998. Senior management positions with Kinder Morgan Energy Partners and Enron Corporation.
Experience:

- Government/regulatory
- Partnering/JV/contract management
- Utilities – energy
- Customer
- FERC
- Generation
- US

John Pettigrew, Executive Director, UK

Appointment to the Board: 1 April 2014
Previous appointments: Joined The National Grid Company plc in 1991 and held various senior management roles, becoming Director of Engineering in 2003. He went on to become Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business between 2007 and 2010; Chief Operating Officer for UK Gas Distribution between 2010 and 2012; and UK Chief Operating Officer from 2012 to 2014. Currently UK Chief Operating Officer.
Experience:

- Government/regulatory
- Partnering/JV/contract management
- Utilities – energy
- US

Maria Richter, Non-executive Director

Appointment to the Board: October 2003
Committee membership: A, F (ch), N
Previous appointments: Morgan Stanley from 1993 to 2002, latterly as Managing Director of its Corporate Finance Retail Group. Vice President of Independent Power Group for Salomon Brothers and Vice President of Prudential Capital Corporation and Power Funding Associates. Most recently Non-executive Director of The Pantry, Inc. and The Vitec Group plc.
External appointments: Non-executive Chairman of Pro Mujer UK and Non-executive Director of The Bessemer Group, Inc.
Experience:

- City
- Financial services
- Emerging markets
- US
- International

Table of Contents

Mark Williamson, Non-executive Director
Appointment to the Board: 3 September 2012
Committee membership: A (ch), N, R
Previous appointments: Chief Accountant then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller in 2000 and appointed as Chief Financial Officer in 2003.
External appointments: Non-executive, Chairman of the Audit Committee and Senior Independent Director of Alent plc, and Chairman of Imperial Tobacco Group PLC.
Experience:
— Finance director
— Accountant
— Government/regulatory
— City
— Utilities – energy
— International

Nick Winser CBE FREng, Executive Director, UK
Appointment to the Board: April 2003
Previous appointments: Chief Operating Officer of the US transmission business for National Grid Transco plc having joined The National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, with Powergen since 1991 as principal negotiator on commercial matters. Most recently co-Chair of the Energy Research Partnership.
External appointments: Non-executive Director of Kier Group plc, Chair of CIGRE UK, Vice President and Trustee of The Institution of Engineering and Technology and President of the European Network of Transmission System Operators for Electricity.
Experience:
— Engineer
— Government/regulatory
— Partnering/JV/contract management
— City
— Utilities – energy
— Customer
— US

Alison Kay, Group General Counsel & Company Secretary
Appointment as Company Secretary: 24 January 2013
Previous appointments: Various 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.

Key
A Audit Committee
F Finance Committee
N Nominations Committee
R Remuneration Committee
S Safety, Environment and Health Committee
(ch) Chairman of committee

Capital gains tax (CGT)
CGT information relating to National Grid shares for UK resident shareholders can be found on our website under Investors, Shareholder Services. Share prices on specific dates can also be found on our website.

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 2014, the Company had undrawn borrowing facilities with a number of its banks of £1.7 billion available to it and a further £1.1 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All 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.

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.

Conflicts of interest
The Board continues to monitor and note possible conflicts of interest that each Director may have and Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting. Potential conflicts are considered and, if appropriate, approved and noted. During the year ended 31 March 2014, the Board has been advised by the Directors of a number of situations in relation to which no actual conflict of interest was identified and has therefore authorised such situations in accordance with its powers as set out in the Articles.

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 during the year ended 31 March 2014. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Events after the reporting period
There have been no material events affecting the Company since the year end.

Table of Contents

Directors' Report disclosures
continued

Material interests in shares

As at 31 March 2014, 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]
The Capital Group Companies, Inc.	414,173,676	11.103
Black Rock, Inc.	182,630,798	5.21
Crescent Holding GmbH	149,414,285	4.07

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 18 May 2014, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 175. All ordinary shares carry the same voting rights.

Political donations and expenditure

National Grid made no donations in the UK or 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 $100,325 (£61,929) 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.

Research and development

Expenditure on research and development during the year was £12 million (2012/13: £15 million; 2011/12: £15 million). RIIO has strengthened the incentives and provided additional innovation funding support to stimulate innovation so that we deliver increased benefits for our stakeholders.

During 2013/14, collaboration has been a key focus for a number of National Grid's innovation projects in all three of our UK Regulated business areas: UK ET, UK GT and UK GD. Innovation in UK ET has focused on technologies and approaches for enhancing the capacity and the reliability of the electricity transmission network. UK GT has focused innovation on safety and alternative material while incorporating commercial, operation and process-led innovation to complement the preceding focus on asset management. Innovation in UK GD has centred around life extension and emission reduction, looking to robotic technologies that can remediate our assets while having the minimum of impact on our customers through street works. Focus has also been on understanding the potential of alternative fuel sources to support a low carbon economy.

Share capital

The share capital of the Company consists of ordinary shares of 11 $^{17}/_{43}$ pence nominal value each and ADSs, which represent five ordinary shares.

Authority to purchase shares

Shareholder approval was given at the 2013 AGM to purchase up to 10% of the Company's share capital. The Directors intend to seek shareholder approval to renew this authority at this year's AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market. 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.

The Company will only purchase shares where the Directors believe this would be in the best interests of shareholders generally, for example to manage the excess share dilution created by a large take-up through the scrip dividend scheme. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company.

Share issuance arising from the operation of the scrip dividend scheme may be actively managed through the repurchase of the Company's shares. It is expected that such repurchases will not exceed 1% of the issued share capital (excluding treasury shares) per annum. For further details in relation to the management of the scrip dividend scheme, see page 02.

Repurchased shares may be held as treasury shares by the Company, and resold for cash, cancelled, either immediately or at some point in the future, or used for the purposes of employee share schemes.

No shares were repurchased during the year. Of the shares repurchased in prior years and held as treasury shares, 7,578,281 have been transferred to employees under the employee share plans, leaving a balance as at the date of this report of 119,565,599 ordinary shares held as treasury shares.

Table of Contents

Authority to allot shares
Shareholder approval was given at the 2013 AGM to allot shares of up to one third of the Company's share capital and a further third in connection with an offer by way of a rights issue.

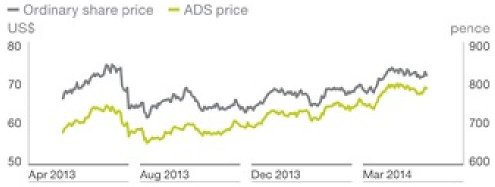
This year the Directors are seeking a lower level of authority than in recent years, where an equivalent of two thirds of the issued share capital of the Company, exclusive of treasury shares, was sought. The Directors consider that the Company will have sufficient flexibility with the lower level of 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 intends to actively manage the share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the 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 annum. For further details in relation to the management of the scrip dividend scheme, see page 02.

Rights attached to shares
Ordinary shareholders and ADS holders receive dividends and can vote at general meetings. Treasury shares do not attract a vote or dividends. 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 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.

Share price
The following graph represents the movement of National Grid's share price during 2013/14. A graph showing the total shareholder return over the last five years is available on page 72.



Source: Datastream

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.

Table of Contents

Other disclosures

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. The following description is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the internal regulations of the Company and cover such matters as the rights of shareholders and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the Company's website. Amendments to the Articles have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company, and 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 48.

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 provide that the non conflicted Directors of the Company may 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, which in total must not exceed £2,000,000 a year or any higher sum as 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 and further details of Directors' remuneration are set out in the Remuneration Report (see pages 58 to 73).

The Directors are empowered to exercise all the powers of National Grid to borrow money, subject to the limitation that the aggregate principal amount of all borrowings of its Group 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 in 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 but 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. Subject to the foregoing, 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 which they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll, and resolutions of a procedural nature are decided by a show of hands, unless a poll is demanded in accordance with the Articles.

(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) and 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, but in neither case will a shareholder be compelled to accept assets upon which there is a liability.

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 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 advance written notice of 21 clear days. 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 National Grid's 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 and Transparency Rules, 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.

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). There were no amendments to, or waivers of, our Code of Ethics during the year.

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 UK Corporate Governance Code (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, however, 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.
- 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.

Depositary payments to the Company
The Depositary has agreed to reimburse the Company for expenses it incurs that are related maintenance expenses of the ADS programme. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses of postage and envelopes for mailing 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 has also agreed to reimburse the Company annually 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 available to the Company is not necessarily tied to the amount of fees the Depositary collects from investors. For the period 1 April 2013 to 16 May 2014, the Company received a total of $1,955,464 in reimbursements from the Depositary consisting of $1,215,766 and $739,698 received in September 2013 and March 2014 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company, see page 178.

Any questions from ADS holders should be directed to:

The Bank of New York Mellon
Depositary Receipts
PO Box 30170
College Station, Texas 77842-3170
Telephone: 1-800-466-7215 (International +1-201-680-6825)
Email: shrrelations@cpushareownerservices.com

Table of Contents

Other disclosures
continued

Description of securities other than equity securities: depositary fees and charges

The Bank of New York Mellon, as Depositary, collects its fees 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. The Depositary collects fees for making distributions to investors (including, it is expected going forward, in respect of cash dividends) by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. 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; distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS registered 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); 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 amended the deposit agreement under which the ADS representing its ordinary shares are issued to allow 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 2013/14 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.

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.

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 179 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 dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	**Low**
April 2014	1.6885	1.6586
March 2014	1.6730	1.6489
February 2014	1.6758	1.6296
January 2014	1.6631	1.6345
December 2013	1.6528	1.6242
		Average[1]
2013/14		1.60
2012/13		1.57
2011/12		1.60
2010/11		1.57
2009/10		1.58

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.

[Table of Contents](#)

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
1997	Energis demerged from National Grid
2000	Lattice Group demerged from BG and listed separately
2000	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	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
2007	KeySpan Corporation acquired
2008	Ravenswood generation station sold
2010	Rights issue raised £3.2 billion
2012	New Hampshire electricity and gas distribution businesses sold

Material contracts

Each of our Executive Directors has a service agreement and each Non-executive Director has a letter of appointment. No contract (other than contracts entered into in the ordinary course of business) has been entered into by National Grid within the two years immediately preceding the date of this report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to National Grid at the date of this report.

Property, plant and equipment

This information can be found under the heading note 11 property, plant and equipment on page 111, note 19 Borrowings on pages 119 to 121, Strategic Report pages 12 to 20, where we operate on page 166 and principal operations on pages 29 to 38.

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2014.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	174,219	17.6366	5,070,597	0.1316
51–100	269,540	27.2862	19,092,359	0.4953
101–500	427,082	43.2345	89,577,097	2.3241
501–1,000	58,849	5.9574	41,182,963	1.0685
1,001–10,000	55,016	5.5694	135,292,646	3.5101
10,001–50,000	2,079	0.2105	37,261,484	0.9667
50,001–100,000	203	0.0206	14,546,599	0.3774
100,001–500,000	429	0.0434	104,413,484	2.709
500,001–1,000,000	122	0.0124	85,852,431	2.2274
1,000,001+	287	0.029	3,322,050,361	86.1899
Total	**987,826**	**100**	**3,854,340,021**	**100**

Taxation

This section discusses certain US federal income tax and UK tax consequences of the ownership of ADSs and ordinary shares by certain beneficial holders thereof. This discussion applies to holders who qualify for benefits under the income tax convention between the US and the UK (the Tax Convention) and are a resident of the US for the purposes of the Tax Convention and are not resident or ordinarily resident in the UK for UK tax purposes at any material time (a US Holder).

US Holders generally will be entitled to benefits under the Tax Convention if they are:

- the beneficial owner of the ADSs or ordinary shares, as applicable, and of any dividends that they receive;
- an individual resident or citizen of the US, a US corporation, or a US partnership, estate, or trust (but only to the extent the income of the partnership, estate, or trust is subject to US taxation in the hands of a US resident person); and
- not also a resident of the UK for UK tax purposes.

If a US Holder holds ADSs or ordinary shares in connection with the conduct of business or the performance of personal services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK, then the US Holder will not be entitled to benefits under the Tax Convention. Special rules, including a limitation of benefits provision, apply in limited circumstances to ADSs or ordinary shares owned by an investment or holding company. This section does not discuss the treatment of holders described in the preceding two sentences. This section does not purport to be a comprehensive description of all the tax considerations that may be relevant to any particular investor. 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. In particular, the discussion deals only with investors that will beneficially hold ADSs or ordinary shares as capital assets and does not address the tax treatment of investors that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, partnerships or other entities classified as partnerships for US federal income tax purposes, persons that control (directly or indirectly) 10% or more of our voting stock, persons that elect mark-to-market treatment, persons that hold ADSs or ordinary shares as a position in a straddle, conversion transaction, synthetic security, or other integrated financial transaction, persons who are liable for the alternative minimum tax, or the Medicare tax on net investment income, and persons whose functional currency is not the dollar.

Table of Contents

Other disclosures
continued

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, possibly with retrospective effect. In addition, the US statements set forth below are based on the representations of The Bank of New York Mellon as depositary (the Depositary). These statements assume that each obligation provided for in, or otherwise contemplated by, the deposit 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, dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement, will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the US will be treated as the owners of the underlying ordinary shares for the purposes of the US Internal Revenue Code.

For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, we have assumed that a holder of ADRs will be treated as the owner of the ordinary shares represented by those ADSs and this section is based on that assumption. Despite a ruling in 2012 by the First-Tier Tax Tribunal in the UK that has cast doubt on this view, HMRC has stated that it will continue to apply its long-standing practice of treating such an ADR holder as holding the beneficial interest in the underlying shares. As such, this is an area of some uncertainty that may be subject to further developments.

A US Holder should consult their own advisor as to the tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local or other national laws.

Taxation of dividends

Under the Tax Convention, the UK is allowed to impose a 15% withholding tax on dividends paid to US shareholders controlling less than 10% of the voting capital of National Grid. The UK does not, however, currently impose a withholding tax on such dividends.

Cash distributions received by a US Holder with respect to their ADSs or ordinary shares generally will be treated as foreign source dividend income subject to US federal income taxation as ordinary income, to the extent paid out of National Grid's current or accumulated earnings and profits, as determined under US federal income tax principles. The dollar amount of dividends received by certain non corporate US Holders with respect to ADSs or ordinary shares will generally be subject to taxation at the special reduced rate normally applicable to long-term capital gains, provided National Grid (i) is eligible for the benefits of the Tax Convention and (ii) was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (PFIC).

Based on National Grid's audited financial statements and relevant market and shareholder data, National Grid believes that it was not treated as a PFIC for US federal income tax purposes with respect to its taxable years ending 31 March 2013 and 2014. In addition, based on its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, National Grid does not anticipate becoming a PFIC in the foreseeable future. Dividends paid by National Grid to corporate US Holders will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains

US Holders will not be liable for UK taxation on any capital gain realised on the disposal of ADSs or ordinary shares.

Sales or other taxable dispositions of ADSs or ordinary shares by a US Holder generally will give rise to US source capital gain or loss equal to the difference between the dollar value of the amount realised on the disposition and the US Holder's dollar basis in the shares or ADSs. Any such capital gain or loss generally will be long-term capital gain or loss, currently subject to taxation at reduced rates for non corporate taxpayers, if the ordinary shares or ADSs were held for more than one year. The deductibility of capital losses is subject to limitations.

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount of value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed by the execution of a duly stamped instrument of transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with the date on which the agreement is made, the SDRT liability will be cancelled, and, 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 of such chargeable securities 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 by execution of a stock transfer form will generally give rise to a liability to UK stamp duty 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 give rise to a liability for SDRT. 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, following a ruling in 2012 by the First-Tier Tax Tribunal in the UK, 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. In accordance with the terms of the Depositary 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.

Table of Contents

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 unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and certifies that no loss of exemption from backup withholding has occurred.

US Holders should consult their tax advisors regarding 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 national of the UK for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of the ADSs or ordinary shares on the individual's death or on a gift of the ADSs or ordinary shares during the individual's lifetime, unless the ADSs or ordinary shares are part of the business property of a permanent establishment of the individual in the UK or pertain 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.

The All-employee Share Plans

The all-employee share plans allow UK- or US-based employees to participate in either HMRC (UK) or Internal Revenue Service (US) approved plans. We believe by offering participation in such plans, it encourages all employees (including Executive Directors) 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 £250 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 £125 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 2013 are: for pre-tax contributions a maximum of 50% of salary limited to $17,500 for those under the age of 50 and $23,000 for those over 50; for post-tax contributions, up to 15% of salary. The total contributions (pre-tax and post-tax) are limited to the lesser of 50% of compensation or $51,000. For calendar year 2014, participants may invest up to the applicable federal salary limits: for pre-tax contributions a maximum of 50% of salary limited to $17,500 for those under the age of 50 and $23,000 for those over 50; for post-tax contributions up to 15% of salary. The total contributions (pre-tax and post-tax) are limited to the lesser of 50% of compensation or $52,000.

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.

The offer and listing

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
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2011/12	660.50	545.50	52.18	45.80
2010/11[1]	666.00	474.80	51.00	36.72
2009/10	685.50	511.00	56.59	38.25
2013/14 Q4	842.50	769.00	70.07	63.19
Q3	797.50	725.16	65.39	58.85
Q2	817.75	727.45	61.59	55.30
Q1	849.50	711.00	64.56	55.16
2012/13 Q4	770.00	678.00	58.33	52.81
Q3	724.97	679.59	58.03	54.28
Q2	706.13	635.56	56.72	49.55
Q1	689.50	627.00	55.00	49.85
April 2014	844.50	806.22	71.23	67.62
March 2014	839.50	808.00	69.86	67.02
February 2014	842.50	777.50	70.07	63.24
January 2014	809.50	769.00	66.40	63.19
December 2013	797.50	742.50	65.39	60.67

1. On 20 May 2010, we announced a 2 for 5 rights issue of 990,439,017 ordinary shares at 355 pence per share.

Unresolved SEC staff comments

There are no unresolved staff comments required to be reported.

Table of Contents

Other unaudited financial information

Reconciliations of adjusted profit measures

Use of 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, remeasurements and stranded cost recoveries. These items are reported collectively as the second component of the financial measures. Note 4 on page 99 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 restructuring, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

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, remeasurements and stranded cost recoveries.

	Year ended 31 March		
	2014 £m	**2013 (restated)[1] £m**	**2012 (restated)[1] £m**
Adjusted operating profit	**3,664**	3,639	3,491
Exceptional items	**55**	(84)	(122)
Remeasurements – commodity contracts	**16**	180	(94)
Stranded cost recoveries	**–**	14	260
Total operating profit	**3,735**	3,749	3,535

1. See note 1 on page 92.

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 7 to the consolidated financial statements on page 107.

	Year ended 31 March		
	2014 £m	**2013 (restated)[1] £m**	**2012 (restated)[1] £m**
Adjusted operating profit	**3,664**	3,639	3,491
Adjusted net finance costs	**(1,108)**	(1,124)	(1,090)
Share of post-tax results of joint ventures	**28**	18	7
Adjusted profit before tax	**2,584**	2,533	2,408
Adjusted taxation	**(581)**	(619)	(697)
Adjusted profit after tax	**2,003**	1,914	1,711
Attributable to non-controlling interests	**12**	(1)	(2)
Adjusted earnings	**2,015**	1,913	1,709
Exceptional items after tax	**388**	75	174
Remeasurements after tax	**73**	156	(122)
Stranded cost recoveries after tax	**–**	9	156
Earnings	**2,476**	2,153	1,917

1. See note 1 on page 92.

Reconciliation of adjusted basic EPS to EPS

Adjusted basic EPS is presented in note 7 to the consolidated financial statements on page 107.

	Year ended 31 March		
	2014 pence	**2013 (restated)[1] pence**	**2012 (restated)[1] pence**
Adjusted EPS	**54.0**	51.4	46.0
Exceptional items after tax	**10.4**	2.0	4.7
Remeasurements after tax	**2.0**	4.2	(3.3)
Stranded cost recoveries after tax	**–**	0.2	4.2
Earnings per share	**66.4**	57.8	51.6

1. See note 1 on page 92.

Reconciliation of adjusted operating profit excluding timing differences and major storms to total operating profit

Adjusted operating profit excluding timing differences and major storms is discussed on page 09.

	Year ended 31 March		
	2014 £m	**2013 (restated)[1] £m**	**2012 (restated)[1] £m**
Adjusted operating profit excluding timing differences and major storms	**3,706**	3,759	3,589
Major storms	**–**	(136)	(116)
Adjusted operating profit excluding timing differences	**3,706**	3,623	3,473
Timing differences	**(42)**	16	18
Adjusted operating profit	**3,664**	3,639	3,491
Exceptional items, remeasurements and stranded cost recoveries	**71**	110	44
Total operating profit	**3,735**	3,749	3,535

1. See note 1 on page 92.

Commentary on consolidated financial statements for the year ended 31 March 2013

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2013. This analysis reflects restated numbers presented as a result of changes to accounting standards in the year ended 31 March 2014, in particular IAS 19 (revised) 'Employee benefits'. This should be read in conjunction with the 31 March 2014 unaudited commentary included on pages 85, 89, 91 and 96.

Analysis of the income statement for the years ended 31 March 2013 and 31 March 2012

Revenue

Revenue for the year ended 31 March 2013 increased by £527 million to £14,359 million driven by the UK ET business, which increased by £300 million principally due to inflationary increases in allowable revenue and higher pass-through costs. The UK GD segment also delivered an additional £114 million primarily for the same reason. Finally, US Regulated revenue was £123 million higher due to the recovery of Niagara Mohawk deferral revenues and higher FERC rate bases.

For the year ended 31 March 2012, revenue decreased £511 million compared with the year ended 31 March 2011 to £13,832 million. Increased UK ET revenue of £275 million under the regulatory RPI-X pricing formula was offset by reduced US revenues as a result of warmer winter weather leading to lower gas and electricity volumes supplied.

Operating costs

Operating costs for the year ended 31 March 2013 of £10,610 million were £313 million (3%) higher than prior year. The increase in costs was predominantly due to increases in pass-through costs due to the colder winter in the US and inflationary increases in our controllable costs. Additional costs of £91 million were incurred in the stabilisation of our new US enterprise resource system.

Exceptional items included in operating profit of £110 million in 2012/13 consisted of restructuring costs of £87 million, less a gain on sale of our EnergyNorth gas business and Granite State electricity business in New Hampshire of £3 million. There were also gains of £180 million on commodity contract remeasurements.

Operating costs for the year ended 31 March 2012 of £10,297 million were £320 million (3%) lower than the prior year. This was primarily due to adverse timing differences of £256 million and higher storm costs in the US of £116 million due to Tropical Storm Irene and the October snowstorm in Massachusetts. Other operating costs were relatively flat year on year, reflecting reduced costs in our US Regulated segment as a result of the restructuring, offset by higher costs within the UK due to inflation and additional employment costs to support both the GDFO system implementation in our UK GD business and the ongoing increase in our capital investment programme in UK ET.

Exceptional items included in operating profit of £44 million in 2011/12 consisted of restructuring charges of £101 million, environmental charges of £55 million, impairment charges of £64 million and commodity contract remeasurements of £94 million. These were offset by net gains on disposals of subsidiaries of £97 million and stranded cost recoveries of £260 million.

In 2012/13, two major storms in the US, Superstorm Sandy and Storm Nemo, had a material effect on the results of National Grid. These two major storms reduced operating profit by £136 million. In 2011/12, results were also affected by two major storm events, Tropical Storm Irene and the October snowstorm in Massachusetts, which reduced operating profit by £116 million. Adjusted operating profit excluding the impact of timing differences and major storms was £3,759 million in 2012/13 (2011/12: £3,589 million). Operating profit including the impact of timing differences and major storms was £3,869 million in 2012/13 (2011/12: £3,633 million).

Total finance costs

Total finance costs for the year ended 31 March 2013 were slightly down compared with 2012 at £1,086 million, due to the reduction in the cost of our index-linked debt, offset by the cost of carrying higher debt levels and loss on disposal of financial instruments.

For the year ended 31 March 2012, total finance costs were £1,188 million, down 11% on the prior year primarily due to lower interest rates on short-term instruments; lower debt repurchase costs that had peaked in the prior year due to the use of surplus funds from the rights issue; the benefit of lower average net debt as a result of those buy backs; and a favourable variance in pension interest primarily due to a higher than expected rate of return on US pension assets.

Financial remeasurements relate to net gains and losses on derivative financial instruments. The year ended 31 March 2013 included a gain of £68 million (2011/12: £70 million loss).

Taxation

For the year ended 31 March 2013, our adjusted tax charge was £78 million lower than 2011/12, mainly due to changes in tax provisions in respect of prior years and a 2% decrease in the UK statutory corporation tax rate in the year, partially offset by increased taxes on higher taxable profits. As a result of this, our effective tax rate for 2012/13 was 24.4% (2011/12: 28.9%).

The 2011/12 effective tax rate before exceptional items, remeasurements and stranded cost recoveries did not change from 2010/11 because a fall in prior period tax credits was offset, primarily by a 2% reduction in the UK corporation tax rate and a change in the UK/US profit mix where higher UK profits were taxed at UK tax rates, which are lower than those in the US.

Exceptional tax from 2012/13 included an exceptional deferred tax credit of £128 million arising from a reduction in the UK corporation tax rate from 24% to 23% applicable from 1 April 2013. A similar reduction in the UK corporation tax rate in 2011/12 from 26% to 24% resulted in a deferred tax credit of £242 million.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2013 was £1,913 million. For the year ended 31 March 2012, adjusted earnings was £1,709 million.

The above earnings performance translated into adjusted EPS growth in 2012/13 of 5.4 pence (12%). For the year ended 31 March 2012, adjusted EPS growth was 0.6 pence (1%).

Other unaudited financial information continued

Analysis of the adjusted operating profit by segment for the year ended 31 March 2013

UK Electricity Transmission

Net regulated revenue increased by £235 million due to an increase in regulated revenues under UK price control allowances partly offset by a £10 million increase in charges under the balancing services incentive scheme. Timing increased by £67 million, with in year over-recovery of £29 million compared with a prior year under-recovery of £38 million.

Our controllable costs increased by £8 million driven by inflation, recruitment and training costs associated with our capital investment programme and increases in contribution rates for our DB pension schemes.

Depreciation and amortisation increased by £42 million as a result of higher asset values due to our capital investment programme.

UK Gas Transmission

Gas Transmission net regulated revenue increased by £112 million driven by increased price control revenues partly offset by lower incentive scheme performance and reduced auction revenues in our LNG storage business. There was no year-on-year timing movement due to an in year over-recovery of £17 million compared with a £17 million over-recovery in 2012/13.

Controllable costs increased by £21 million driven by inflation, an increase in our environmental provisions and increases in contribution rates for our DB pension schemes.

Depreciation and amortisation increased by £16 million due to an increase in the underlying asset base and some one-time asset write-offs.

UK Gas Distribution

Net regulated revenue increased by £85 million driven by our regulatory RPI-X pricing formula and improved performance under incentive programmes. Timing reduced adjusted operating profit by £32 million driven by in year under-recoveries of £10 million compared with an over-recovery in the prior year of £22 million. The estimated closing under-recovered value at 31 March 2013 was £8 million.

Regulated controllable costs increased by £13 million due to: inflation, system maintenance costs and one-off contract strategy costs, partially offset by efficiencies enabled by our new front office systems. Post-retirement costs increased by £2 million as a result of increased contribution rates for our DB pension schemes.

Depreciation and amortisation increased by £10 million driven by higher average asset values due to the capital investment programme and new front office systems. Finally, other costs decreased by £3 million, resulting in an adjusted operating profit of £794 million for the year.

US Regulated

Our US Regulated business was affected by a reduction in timing differences of £37 million due to in year under-recoveries of £20 million compared with a prior year over-recovery of £17 million (after adjusting for foreign exchange movements).

The estimated closing over-recovered value at 31 March 2013 was £110 million. This was offset by a year-on-year reduction in major storm costs of £33 million, as the financial impact of Superstorm Sandy and Storm Nemo was lower than that from Hurricane Irene and the Massachusetts October snowstorm in 2011/12.

Net costs incurred in the US after insurance proceeds were £33 million lower than 2011/12 (after adjusting for foreign exchange movements).

An increase of £135 million in net regulated income reflects deferral recoveries in our upstate New York businesses together with higher revenues from our capital tracker regulatory arrangements.

Regulated controllable operating costs increased by £19 million reflecting inflation and higher spend on IS outsourcing and security. Post-retirement costs increased by £29 million primarily due to reductions in discount rates. Bad debt expense reduced by £33 million in the year due to improving economic conditions and improved collections.

Depreciation and amortisation increased by £17 million as a result of our capital expenditure programme in the year. Finally, other costs increased by £58 million due to increased property tax rates and assessed values, together with higher environmental costs in 2012/13. As a result, adjusted operating profit for the year was £1,254 million.

Other activities

Our Other activities were significantly affected by the cost of major storms in the year, with an additional £51 million cost incurred compared with the prior year. This was as a result of insurance costs for Superstorm Sandy incurred in our insurance captive. Some of these costs are expected to be recovered from the reinsurance market.

Our metering business made £24 million lower operating profit than the prior year as a result of the disposal of OnStream in 2012, together with the impact of third-party disputes on legacy meter pricing in our regulated metering business.

Other costs increased by £126 million, primarily representing spend on the implementation of the new US information systems and financial procedures, offset by increased revenues from the French interconnector. As a result of these movements, Other activities recorded an adjusted operating profit of £11 million for the year.

Analysis of the statement of financial position for the year ended 31 March 2013

Goodwill and other intangible assets

Goodwill and intangibles increased by £295 million to £5,617 million as at 31 March 2013. This increase primarily related to foreign exchange movements of £266 million and software additions of £175 million offset by amortisation of £101 million.

Property, plant and equipment

Property, plant and equipment increased by £2,891 million to £36,592 million as at 31 March 2013. This was principally due to capital expenditure of £3,511 million on the extension of our regulated networks and foreign exchange movements of
£680 million, offset by £1,281 million of depreciation in the year.

Capital expenditure increased in each of the three regulated businesses including record amounts in our UK Transmission and US Regulated businesses.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets increased by £66 million to £753 million. This was principally due to changes in the fair value of our US commodity contract assets and available-for-sale investments, and an equity investment in Clean Line Energy Partners LLC of $12.5 million by 31 March 2013.

Inventories and current intangible assets, and trade and other receivables

Inventories and current intangible assets, and trade and other receivables increased by £854 million to £3,201 million at 31 March 2013. Driven by the US, this primarily reflected the timing of cost recoveries from LIPA relating to Superstorm Sandy and an increase in trade receivables due to colder weather in February and March 2013 compared with 2012, which also led to an offsetting decrease in inventories which were £85 million lower.

Trade and other payables

Trade and other payables increased by £366 million to £3,051 million due to increased payables and accruals relating to Superstorm Sandy and Storm Nemo.

Current tax liabilities

Current tax liabilities of £231 million at 31 March 2013 were £152 million lower primarily due to higher tax payments made in 2012/13 and larger prior year tax credits arising in 2012/13, although these were partially offset by a larger current year tax charge.

Deferred tax liabilities

The net deferred tax liability increased by £341 million to £4,077 million. The main reasons for this movement were the £441 million deferred tax charge, including the impact of the reduction in the statutory tax rate for future periods of £128 million, partially offset by the deferred tax credit on actuarial losses on pensions and other post-retirement benefits.

Provisions and other non-current liabilities

Provisions (both current and non-current) increased by £29 million to £1,760 million as at 31 March 2013. The underlying movements included additions of £92 million and £83 million to the environmental and other provisions respectively, as well as foreign exchange movements of £65 million. The other provisions additions included £33 million of increased liabilities insured by our insurance subsidiaries. These were offset by payments of £231 million in relation to all classes of provisions.

Other non-current liabilities decreased by £37 million to £1,884 million, reflecting changes in the fair value of US commodity contract liabilities.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liability. At 31 March 2013, net debt had increased by £1,832 million to £21,429 million as a result of debt issuances in the year, including the hybrid bonds of £2.1 billion.

Net pension and other post-retirement obligations

A summary of the total UK and US assets and liabilities and the overall net IAS 19 accounting deficit (as restated for IAS 19 (revised)) is shown below:

Net plan liability	**UK £m**	**US £m**	**Total £m**
As at 1 April 2012 (as restated)	(668)	(2,270)	(2,938)
Exchange movements	–	(112)	(112)
Current service cost	(90)	(130)	(220)
Net interest cost	(31)	(104)	(135)
Curtailments and settlements	(21)	(44)	(65)
Actuarial gains/(losses)			
– on plan assets	1,131	261	1,392
– on plan liabilities	(1,691)	(415)	(2,106)
Employer contributions	201	486	687
As at 31 March 2013	**(1,169)**	**(2,328)**	**(3,497)**
Represented by:			
Plan assets	–	195	195
Plan liabilities	(1,169)	(2,523)	(3,692)
Net plan liability	(1,169)	(2,328)	(3,497)

The principal movements in net obligations during the year arose as a consequence of a decrease in the discount rate following declines in corporate bond yields. Actuarial gains on plan assets reflected improvements in financial markets.

Commitments and contingencies

Capital expenditure contracted but not provided for increased by £283 million to £3,011 million a result of the continued ramp up in our capital investment programme.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30 (b) on page 139.

Table of Contents

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 2014. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Review. The information presented below for the years ended 31 March 2010, 2011, 2012, 2013 and 2014 has been prepared under IFRS issued by the IASB and as adopted by the EU1.

	31 March 2014 £m	31 March 2013 (restated)[1] £m	31 March 2012 (restated)[1] £m	31 March 2011 (restated)[1] £m	31 March 2010 (restated)[1] £m
Summary income statement					
Revenue[2]	**14,809**	14,359	13,832	14,343	14,007
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,664**	3,639	3,491	3,619	3,134
Exceptional items, remeasurements and stranded cost recoveries	**71**	110	44	145	172
	3,735	3,749	3,535	3,764	3,306
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**2,584**	2,533	2,408	2,283	1,999
Exceptional items, remeasurements and stranded cost recoveries	**164**	178	(26)	151	219
	2,748	2,711	2,382	2,434	2,218
Profit for the year	**2,464**	2,154	1,919	2,043	1,418
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**2,015**	1,913	1,709	1,627	1,447
Exceptional items, remeasurements and stranded cost recoveries	**461**	240	208	412	(32)
	2,476	2,153	1,917	2,039	1,415
Earnings per share					
Basic – continuing operations (pence)[3]	**66.4**	57.8	51.6	56.9	46.1
Diluted – continuing operations (pence)[3]	**66.1**	57.5	51.3	56.6	45.9
Basic (pence)[3]	**66.4**	57.8	51.6	56.9	46.1
Diluted (pence)[3]	**66.1**	57.5	51.3	56.6	45.9
Number of shares – basic (millions)[4]	**3,729**	3,724	3,719	3,585	3,071
Number of shares – diluted (millions)[4]	**3,748**	3,742	3,738	3,604	3,084
Dividends per ordinary share					
Paid during the year (pence)	**40.85**	39.84	37.40	37.74	36.65
Approved or proposed during the year (pence)	**42.03**	40.85	39.28	36.37	38.49
Paid during the year ($)	**0.636**	0.633	0.599	0.592	0.579
Approved or proposed during the year ($)	**0.696**	0.632	0.623	0.571	0.608

	31 March 2014 £m	31 March 2013 (restated)[1] £m	31 March 2012 (restated)[1] £m	31 March 2011 (restated)[1] £m	31 March 2010 (restated)[1] £m
Summary statement of net assets					
Non-current assets	**44,895**	45,129	41,684	39,787	38,488
Current assets	**7,489**	9,576	5,387	6,323	5,065
Assets of businesses held for sale	**–**	–	264	290	–
Total assets	**52,384**	54,705	47,335	46,400	43,553
Current liabilities	**(7,331)**	(7,445)	(6,004)	(6,826)	(6,559)
Non-current liabilities	**(33,134)**	(37,026)	(32,001)	(30,403)	(32,800)
Liabilities of businesses held for sale	**–**	–	(87)	(110)	–
Total liabilities	**(40,465)**	(44,471)	(38,092)	(37,339)	(39,359)
Net assets	**11,919**	10,234	9,243	9,061	4,194
Shareholders' equity	**11,911**	10,229	9,236	9,052	4,182
Summary cash flow statement					
Cash generated from continuing operations	**4,419**	4,037	4,487	4,854	4,372
Tax (paid)/received	**(400)**	(287)	(259)	4	144
Net cash inflow from operating activities	**4,019**	3,750	4,228	4,858	4,516
Net cash flows used in investing activities	**(1,330)**	(6,130)	(2,371)	(4,774)	(2,332)
Net cash flows from/(used in) financing activities	**(2,972)**	2,715	(1,900)	(430)	(2,212)
Net increase/(decrease) in cash and cash equivalents	**(283)**	335	(43)	(346)	(28)

1. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' has resulted in a significant change in how we account for pensions and employee benefits. The numbers included in the selected financial data above for the years 31 March 2010, 2011, 2012 and 2013 have been restated to show the impact of IAS 19 (revised) had it been adopted since 2010. There have been no other significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data.

2. Items previously reported for 2010 separately as other operating income have been included within revenue.

3. Items previously reported for 2010 – 2013 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 2010 – 2013 have been restated to reflect the impact of the additional shares issued as scrip dividends.

Table of Contents

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 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

Board
The Board of Directors of the Company (for more information see pages 43 and 171 to 173).

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.

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.

circuit
See route length.

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.

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.

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.

DECC
The Department of Energy & Climate Change, the UK Government ministry responsible for energy and climate change.

decoupling
See revenue decoupling.

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.

delivery body
Under the Energy Act 2013, and subject to secondary legislation due to be in force in summer 2014 (which will set out detailed roles and responsibilities for all market participants), National Grid's electricity system operator function will provide independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. As proposed, National Grid will administer the capacity mechanism, including running the annual capacity auctions, manage the allocation of contracts for difference to low carbon generators and report to the Government annually on performance against the Government's delivery plan.

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.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on page 43 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.

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.

equity
In financial statements, the amount of net assets attributable to shareholders.

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 27 member states located in Europe.

Exchange Act
The 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 155 to 159, which are prepared in accordance with UK GAAP.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

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.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

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
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.

MWh
Megawatt hours, being an amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

Definitions and glossary of terms continued

N

National Grid Metering (NGM)
National Grid Metering Limited, National Grid's UK regulated metering business.

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.

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.

OnStream
Utility Metering Services Limited, an unregulated UK metering business, sold by National Grid on 24 October 2011.

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 11 $^{17}/_{43}$ pence.

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.

PSA
The 15 year power supply agreement with LIPA which came into effect on 28 May 2013, under which the Company supplies electricity to communities and businesses across Long Island.

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 operating 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.

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.

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 as calculated annually (on a calendar year to 31 December).

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.

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.

route length
The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 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 emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity 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.

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. SF6 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.

standard cubic metre
A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

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.

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.

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.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code 2012 (the Code)
Guidance, issued by the Financial Reporting Council, 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.

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 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).

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 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 less net debt, on a per share basis.

Table of Contents

Want more information or help?

Capita Asset Services

For queries about **ordinary shares**:

0871 402 3344
Calls cost 8 pence per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays. If calling from outside the UK: +44 (0)20 7098 1198
Textphone: 18001 0871 664 0532

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
Depositary 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**

Have you received unsolicited investment advice?

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:

4 June 2014	Ordinary shares go ex-dividend for 2013/14
6 June 2014	Record date for 2013/14 final dividend
11 June 2014	Scrip reference price announced
27 June 2014	Scrip election date
28 July 2014	2014 AGM and interim management statement
20 August 2014	2013/14 final dividend paid to qualifying shareholders
7 November 2014	2014/15 half-year results
19 November 2014	Ordinary shares go ex-dividend
21 November 2014	Record date for 2014/15 interim dividend
7 January 2015	2014/15 interim dividend paid to qualifying shareholders
January/February 2015	Interim management statement
May 2015	2014/15 preliminary results

Dividends

The Directors are recommending a final dividend of 27.54 pence per ordinary share ($2.3107 per ADS) to be paid on 20 August 2014 to shareholders on the register as at 6 June 2014. Further details in respect of dividend payments can be found on page 07. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

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

Elect to receive your dividends as additional shares:

- Join our scrip dividend scheme
- No stamp duty or commission to pay

American Depositary Shares

The Company has amended the deposit agreement under which the ADS representing its ordinary shares are issued to allow 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 2013/14 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

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.

Manage your shareholding online via the National Grid share portal:

- Have your dividends paid direct to your bank account instead of receiving cheques
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Register your AGM votes
- Get copies of your dividend tax vouchers and view your dividend payment history
- Update your address details

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 telephone from 10p per share (plus stamp duty as applicable). Dealing at live prices is available online or by telephone, different fees apply.

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. High street banks may also offer share dealing services. 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 the charity.

ShareGift is a registered charity (no. 1052686) which specialises in accepting such shares as donations. For 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, 6th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8BR.

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.

The Company's agent in the United States is National Grid USA, Attn: General Counsel, 40 Sylvan Road, Waltham, MA 02451.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2014 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 06 to 73 and 160 to 187, 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, announcements from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); 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 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 projects (including our US financial systems and our controls over financial reporting); 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; inflation; 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, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; and the failure to respond to market developments and 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 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 167 to 169 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.

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Table of Contents

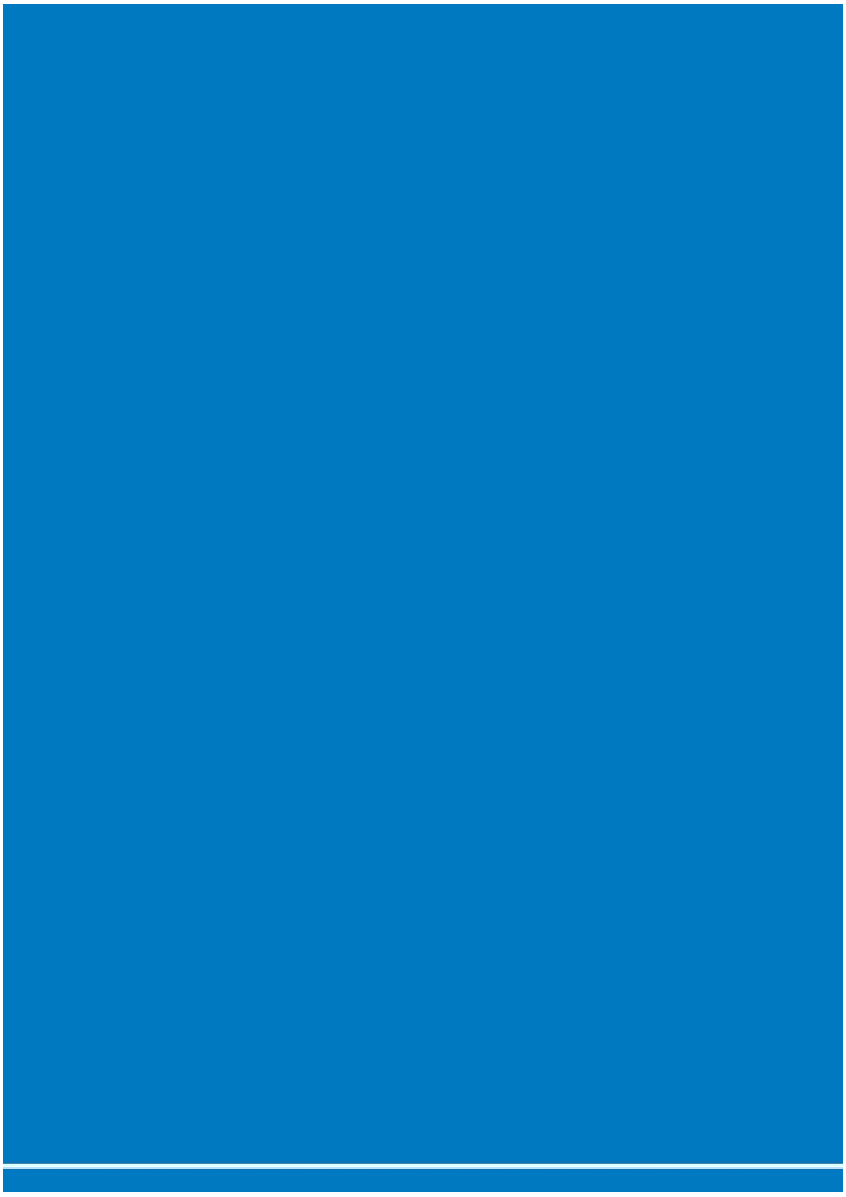

Table of Contents

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, 3 June 2014.

	High	Low
June 2014*	1.6757	1.6738
May 2014	1.6992	1.6706

* For the period to 3 June 2014.

Share ownership

At 3 June 2014, 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:

Capital Group Companies, Inc. held 5.04% of our outstanding share capital as at 9 June 2011. Their shareholding increased to 10.91% of our outstanding share capital as at 31 March 2013 and that such holdings increased as at 5 April 2013 to 11.02 %. As noted on page 174 of the 2013/2014 Annual Report and Accounts, we have been notified that Capital Group Companies, Inc. held 11.103% of our outstanding share capital as at 31 March 2014 which percentage remains unchanged as at 3 June 2014.

Since 31 March 2014, we have not been notified of any other subsequent significant change in the percentage of shares held by the shareholders, listed on page 174 of the 2013/2014 Annual Report and Accounts.

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 2014*	897.92	874.50	75.09	73.15
May 2014	895.50	835.86	74.86	70.42

* For the period to 3 June 2014, the latest practicable date.

Subsequent Events

NONE APPLICABLE

Table of Contents

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.

Table of Contents

	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.	Filed herewith
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.	Filed herewith
4(c).1	Service Agreement among The National Grid plc and Steven Holliday dated 1 April 2006. (Exhibit 4.(c).3 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).2	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).3	Service Agreement among National Grid Transco plc, National Grid Company plc and Nicholas Winser dated 28 April 2003. (Exhibit 4.8 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).4	Employment Agreement among National Grid plc, National Grid USA and Thomas King dated 11 July 2007. (Exhibit 4 (c).9 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference

Table of Contents

4(c).5	Service Agreement among National Grid Electricity Transmission plc and John Mark Pettigrew dated 28 February 2014.	Filed Herewith
4(c).6	Letter of Appointment—Philip Aiken. (Exhibit 4 (c).11 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
4(c).7	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).8	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).9	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).10	Letter of Appointment—Maria Richter. (Exhibit 4.14 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).11	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).12	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).13	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).14	Letter of Appointment—Therese Esperdy.	Filed Herewith
4(c).15	National Grid plc Deferred Share Plan. (Exhibit 4.2 to National Grid plc S-8 dated 28 July 2011 File No. 333-175852)	Incorporated by reference
4(c).16	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).17	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).18	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	Filed herewith
12.1	Certification of Steve Holliday 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 Steve Holliday 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

Table of Contents

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
5 June 2014