

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2017. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, the effectiveness of any system of disclosure controls and procedures has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company’s internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2017.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2017, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 83.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 15 to 18. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities	
Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment. Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas. Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation. Safety is a fundamental priority for us and we commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.	We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

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

This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.

Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, (including any changes arising as a result of the UK's exit from the European Union), including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

- (i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
- (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change and of advancing energy

technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide timely regulatory reporting, which may include the provision of financial statements. This could result in the imposition of regulatory fines, penalties and other sanctions, which could impact our operations, our reputation and our relationship with our regulators and other stakeholders.

For further information see pages 174 to 179, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Internal control and risk factors continued

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources) could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition, include acquisitions, disposals, joint ventures, partnering and organic investment opportunities such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability

of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency.

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by

changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, for example as a result of unexpected political or economic events. If we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures.

One of the principal limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate.

These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, such as from our current PSEG-LI transition services agreement, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 181.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

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

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 36.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 54 to 71).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depository payments to the Company

The Depository reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depository also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depository will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depository collects from investors.

For the period 19 May 2016 to 17 May 2017, the Company received a total of \$2,126,791.80 in reimbursements from the Depository consisting of \$1,420,248.93 and \$706,542.87 received in November 2016 and March 2017 respectively. Fees that are charged on cash dividends will be apportioned between the Depository and the Company, see below.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 207.

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

The Bank of New York Mellon, as the Depository, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depository may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
\$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depository to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depository or its agent when they deposit or withdraw shares.
Expenses of the Depository	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depository or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to \$0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of \$0.02 per ADS by the Depository prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period

There have been no material events affecting the Company since the year end.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non UK resident holders of ordinary shares except as otherwise set out in Taxation on page 187 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Shareholder information continued

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to US dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	Low
April 2017	1.2938	1.2392
March 2017	1.2570	1.2150
February 2017	1.2647	1.2429
January 2017	1.2605	1.2065
December 2016	1.2712	1.2226
	Average ¹	
2016/17		1.31
2015/16		1.51
2014/15		1.61
2013/14		1.60
2012/13		1.57

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 85.

Material interests in shares

As at 31 March 2017, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights ¹
Black Rock, Inc.	226,594,591	6.01
The Capital Group Companies, Inc.	145,094,617	3.88
Competrol International Investments Limited	137,164,285	3.65

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

As at 17 May 2017, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 184. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 17 May 2017, the share capital of the Company consists of ordinary shares of 11 ¹⁷/₄₃ pence nominal value each and ADSs, which represent five ordinary shares each. Subject to shareholder approval of the proposed share consolidation, at the General Meeting of the Company to be held on 19 May 2017, the nominal value of the Company's ordinary shares will be 12 ²⁰⁴/₄₇₃ pence with effect from 22 May 2017.

Authority to purchase shares

Shareholder approval was given at the 2016 AGM to purchase up to 10% of the Company's share capital (being 374,682,662 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2017 AGM.

In addition, the authority to purchase shares from the 2016 AGM is proposed for renewal at a General Meeting of the Company to be held on 19 May 2017 to cover the period between the date of the General Meeting and the 2017 AGM. The renewed authority is required due to the change to the nominal value of the ordinary shares that would result from the share consolidation proposed at the same General Meeting.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

As explained in the Notice of General Meeting issued on 19 April 2017, it is intended that part of the proceeds from the sale of a majority interest in the Company's UK Gas Distribution business will be returned to shareholders by way of purchase of the Company's shares. Subject to shareholder approval at the General Meeting to be held on 19 May 2017 and the 2017 AGM, the Company and the Directors therefore intend to use this authority in this context to return approximately £835 million to shareholders by way of on-market purchases of the Company's ordinary shares.

When purchasing shares, the Company has, and will continue to, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

During the year the Company purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital ¹
Shares held in Treasury purchased in prior years	179,045,081	£20,402,811.56	4.54 %
Shares purchased and held in Treasury during the year ^{2,3}	19,602,361	£2,233,757.42	0.50 %
Shares transferred from Treasury during the year (to employees under employee share plans)	6,027,564	£686,861.94	0.15 %
Maximum number of shares held in Treasury during the year	193,515,250	£22,051,737.79	4.91 %

1. Called up share capital of 3,942,983,436 ordinary shares as at the date of this report.
2. From 7 April 2016 to 14 February 2017.
3. Shares purchased for a total cost of £188,922,589.

	Total number of shares purchased	Average price paid per share (£)	Of which, number of shares purchased as part of publicly announced plans	Maximum value that may yet be purchased as part of publicly announced plans (£m)
April ¹ (7 April 2016)	657,000	9.978	657,000	-
May	-	-	-	-
June	-	-	-	-
July	-	-	-	-
August	-	-	-	-
September	-	-	-	-
October	-	-	-	-
November ² (25-30 Nov 2016)	1,250,000	9.146	1,250,000	-
December ² (5-22 Dec 2016)	8,200,000	9.139	8,200,000	-
January ² (4-27 Jan 2017)	5,997,044	9.330	5,997,044	-
February ³ (6-14 Feb 2017)	3,498,317	9.526	3,498,317	-
March	-	-	-	-
Total	19,602,361	9.295	19,602,361	-

Shares were purchased as part of publicly announced plans, as detailed below, which have expired and under which the Company does not intend to make further purchases:

1. Announced: 23 February 2016 and Expired: 14 April 2016 (Authority for no. of shares: 3,357,000 of which 657,000 during the financial year ended 31 March 2017).
2. Announced: 24 November 2016 and Expired: 21 January 2017 (Authority for no. shares: 15,447,044 ordinary shares).
3. Announced: 6 February 2017 and Expired: 14 February 2017 (Authority for no. shares: 3,498,317 ordinary shares).

No purchases were made in the United States or in respect of the Company's ADSs.

As at the date of this report, the Company held 188,996,970 ordinary shares as treasury shares, representing 4.79% of the Company's called up share capital.

Authority to allot shares

Shareholder approval was given at the 2016 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers

The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year by the Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.



Price history

The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary share (pence)		ADS (\$)	
	High	Low	High	Low
2016/17	1,148.00	888.90	74.97	56.50
2015/16	998.20	806.40	72.53	63.75
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2016/17 Q4	1,022.50	906.80	64.22	56.54
Q3	1,114.50	888.90	71.43	56.50
Q2	1,148.00	1,035.50	74.97	69.05
Q1	1,096.00	945.00	74.67	66.52
2015/16 Q4	998.20	906.10	72.47	64.76
Q3	968.57	890.60	72.53	67.31
Q2	918.90	806.40	69.71	63.75
Q1	940.90	817.20	72.14	64.37
April 2017	1,042.00	985.10	65.33	62.85
March 2017	1,022.50	909.31	64.22	59.24
February 2017	983.40	906.80	61.22	57.65
January 2017	969.30	912.30	59.54	56.54
December 2016	960.00	888.90	59.40	56.50

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2017.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	159,963	18.0110	4,561,644	0.1157
51-100	236,033	26.5760	16,694,761	0.4234
101-500	386,407	43.5073	81,585,725	2.0691
501-1,000	53,761	6.0532	37,453,393	0.9499
1,001-10,000	48,874	5.5029	121,025,841	3.0694
10,001-50,000	2,018	0.2272	35,655,682	0.9043
50,001-100,000	222	0.0250	16,330,876	0.4142
100,001-500,000	418	0.0471	102,792,008	2.607
500,001-1,000,000	125	0.0141	86,652,292	2.1976
1,000,001+	321	0.0361	3,440,231,225	87.2494
Total	888,142	100	3,942,983,447	100

Taxation

The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is beneficial owner of ADSs or ordinary shares that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

Shareholder information continued

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our voting stock;
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- investors whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2017. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains

US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

UK stamp duty and stamp duty reserve tax (SDRT) Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on our website under: Investors, Shareholder centre, More information and help. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK- or US-based employees to participate in either HMRC (UK) or IRS (US) approved plans and to become shareholders in National Grid.

Sharesave

Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP

Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans

Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2016 are: for pre-tax contributions, a maximum of 50% of salary limited to \$18,000 for those under the age of 50 and \$24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of \$53,000. For calendar year 2017, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to \$18,000 for those under the age of 50 and \$24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of \$54,000.

ESPP

Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of \$18,888 to purchase ADSs in National Grid.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2017, the Company had undrawn borrowing facilities of £3.7 billion available to it with a number of banks and a further £2.1 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

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.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website (where any amendments or waivers will also be posted) under: About us, Corporate governance, Code of Ethics. There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. During the year ended 31 March 2017, no actual or potential conflicts of interest were identified, which required approval by the Board. The Board has also considered and noted a number of situations in relation to which no actual conflict of interest was identified.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Code but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

- The NYSE rules and the Code apply different tests for the independence of Board members.
- The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.
- The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.
- The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.
- The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Directors' indemnity

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

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Human Rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our ethical business conduct guide – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have specific policies relating to human rights, slavery or human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct (GSCoC), we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code, the UK Modern Slavery Act 2015 and for our UK suppliers, the requirements of the Living Wage Foundation.

Listing Rule 9.8.4 R cross reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 103
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 187
Shareholder waivers of future dividends	Page 187
Agreements with controlling shareholders	Not applicable

Material contracts

On 8 December 2016, we agreed to sell a 61% equity interest in our UK Gas Distribution business to the Consortium pursuant to the terms of an acquisition agreement of that date. The sale of the 61% interest completed on 31 March 2017. National Grid and the Consortium have also entered into an agreement for the potential future sale and purchase of an additional 14% equity interest in the UK Gas Distribution business.

In addition, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report which is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

Political donations and expenditure

At this year's AGM the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure in the European Union (EU), in each case in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide and as a result this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is therefore being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no donations in the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling \$71,410 (£55,933) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found under the heading note 12 property, plant and equipment on pages 118 and 119, note 20 Borrowings on pages 127 and 128 and where we operate on page 173.

Research and development

Investment in research and development during the year for the Group, including discontinued operations, was £27 million (2015/16: £29 million; 2014/15: £23 million). Throughout 2016/17, innovation funding has sustained investment across all three of our UK Regulated business areas: UK ET, UK GT and UK GD. We have continued to challenge the way we work, collaborating across the industry in search of new technologies and techniques in our drive to deliver benefits for our stakeholders. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects.

The UK ET innovation investment continues to aim to advance our strategic ambitions to reduce the cost of providing a secure, reliable and sustainable electricity transmission system. Progress has been made on the design of our new 400kV research centre at Deeside.

We have successfully installed and pressurised the new insulating gas (Green Gas for Grid g³), a potential replacement for SF₆ for new transmission assets, on two gas insulated busbar sections at our substation in Sellindge. The equipment passed its High Voltage test on site and was energised in April 2017.

Research has also progressed our understanding of and ability to predict and manage the impact of increased levels of distributed and renewable generation on the system.

Our control room and forecasting team have already been able to use the initial output from our solar PV monitoring and forecasting work, to help with balancing the system at times of high levels of solar generation.

NGET's Transmission & Distribution Interface 2.0 project is an £8 million Ofgem Network Innovation Competition award announced on Wednesday 30 November 2016. This is a new regional power market trial that will improve interaction between National Grid's System Operator (SO), UK Power Networks' role as regional electricity distributor and renewable energy generators connected to the distribution system.

Other disclosures continued

The market will help renewable energy generators to offer their services to National Grid’s System Operator via a UK Power Networks’ Distribution System Operator (DSO) platform. This approach will also provide additional services to UK Power Networks. Improving communication, coordination and developing new commercial frameworks will maximise network capacity by better managing system constraints, giving National Grid’s System Operator access to previously unexploited power. It will also introduce new revenue streams for renewable energy generators. If successful, the regional power market model could be introduced to 59 other sites and potentially save up to £412 million for UK consumers by 2050.

We are also working in partnership with Scottish Power Electricity Networks on their £16 million Phoenix NIC project which aims to demonstrate how hybrid synchronous compensation could overcome technical limitations that currently limit the proportion of power generation from renewable sources and interconnectors that the Great Britain electricity system can handle. Our innovation portfolio has continued to develop throughout 2016/17, with a continued focus on new techniques for safety and risk reduction through projects such as 3D laser scanning for more accurate pipeline condition assessment and removable composite transition pieces to access pipelines more easily. Other projects have explored new techniques for valve sealant lines and improved techniques for compressor emissions monitoring. Demonstration of the value delivered to our customers has been a key priority in 2016/17 and continues to be going forward into 2017/18.

Innovation in UK GD continued to focus on six value areas which reflect both the RII0 outputs. We continued to develop and refine pipe-lining technologies to reduce the impact of our pipe replacement activities on our customers and the environment. In addition, we have made a new tool available for our engineers to help find underground pipes more quickly. We also explored how virtual reality technology can improve the way we train engineers.

Research, Development & Demonstration (RD&D) work in the US has focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic RD&D investment is needed and is likely to prove beneficial to National Grid. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for modernisation (Grid Modernization in Massachusetts and ‘Reforming the Energy Vision’ in New York).

In the year, we invested and participated in several significant pilot projects with the intent of obtaining operational knowledge and experience of technology-driven system impacts. Below are a few examples of our RD&D projects:

- We are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our ‘Solar Phase II’ programme. These PV sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide. Operating and analysing the performance of these grid interactive controls will help prepare and futureproof our system to enable a high penetration of the Distributed Energy Resources on the distribution system. We are also pre-approved to construct up to 14 MW of photovoltaic (PV) facilities in conjunction with 7 MW of battery storage in Massachusetts as part of our ‘Solar Phase III’ programme. The intent of this project is to demonstrate the value of energy storage in the system peak load shaving, solar ramp rate control and mitigation of power quality issues.

- We are engaged with Electric Power Research Institute (EPRI) on a number of programmes such as Distributed Energy Resources integration, energy storage and system planning. In February 2017, National Grid received two EPRI Technology Transfer awards for the RD&D work on Smart Inverters and distributed energy resources hosting capacity.
- We are progressing four New York REV pilot projects, which are
 - 1) Fruit Belt Neighbourhood Solar, 2) Community Resilience,
 - 3) Demand Reduction, and 4) Distribution System Platform to test new technologies and business models in which distributed energy resources are integrated for grid operations.
- We support several Department of Energy projects under the SunShot programme, aimed to further the integration and proliferation of solar PV.
- Lessons learned from the two-year Worcester Smart Energy Solutions pilot in Massachusetts and the Volt VAR Optimization and Conservation Voltage Reduction pilot in Rhode Island have helped shape larger scale grid modernisation proposals in each of our jurisdictions.
- We demonstrated electric robot and UAS (unmanned aircraft systems) technologies in our service area, and are working to integrate these technologies into our operations.
- We are preparing to demonstrate online monitoring technology at transmission substations in our New England service area in order to move towards enhanced condition-based asset management.
- We are building equipment test and training labs in order to support our initial upgrades of transmission substations across our service area to the IEC 61850 communications standard.

US expenditure for gas research, development and deployment of new technologies is largely funded through a special Regulatory Order and customer surcharge mechanism in New York State. Primary investments were in the areas of enhancements to improve overall customer safety; methane detection equipment is being deployed and tested both as mobile solutions to identify leakage in the field and in residential buildings. After completing extensive bench testing, we are continuing a pilot study in the use of existing and new technology for methane sensors within residential properties and working with standards organisations to enhance safety through the development of revised standards and specifications for improved detection levels and proper placement and use of detectors. We are evaluating best practices in automatic shut-off valves, excess flow valves and developing an integrated system to provide storm hardening (flood condition detection) with a methane detector in low pressure areas.

To further advance the safe operation of our systems, ongoing improvements for condition assessments of the most difficult to inspect pipelines are being enhanced through robotic inspection platforms with focus on crack detection sensors, Electromagnetic Acoustic Transducer, and developing tools to assess smaller diameter unpiggable steel pipelines. In addition, new tools and techniques are being developed to increase safety of the workforce, safely stop off mains and services with less excavation, improve welding practices and advance the inspection of polyethylene pipe construction, joint quality and the tracking and traceability of materials used in the construction of our transmission and distribution assets and to move toward more electronically and geospatially based records of field operations and construction.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Within the annual report a number of financial measures are presented. These measures have been categorised as either alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines, or as other financial information.

An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. Where appropriate, reconciliations of alternative performance measures to IFRS measures and/or definitions are provided.

The Group has defined the following financial measures as APMs: net revenue (reconciliations below), adjusted operating profit including and excluding timing (reconciliations below), adjusted earnings per share including and excluding timing (reconciliations below), net debt (included in note 27), capital investment (reconciliation below) and value added (reconciliation and definition on page 21). Adjusted profit and earnings metrics this year relate to both the continuing business and the Group as a whole i.e. including discontinued operations.

Other financial information presented includes additional non-IFRS reconciliations and are identified as follows: funds from operations (FFO) (reconciliation below), FFO/interest cover (reconciliation below) and retained cash flow (RCF)/adjusted net debt (reconciliation below).

Other financial information also includes regulatory measures: Group, UK and US regulatory return on equity (RoE) (reconciliation below), regulatory asset based growth (reconciliation below), regulatory gearing (description on page 151) and annual asset growth (reconciliation below).

Alternative performance measures (APMs)

Net revenue

'Net revenue' is revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

	31 March 2017			31 March 2016 Re-presented ¹		
	Total sales	Pass through costs	Net revenue	Total sales	Pass through costs	Net revenue
UK Electricity						
Transmission	4,439	(2,293)	2,146	3,977	(2,030)	1,947
UK Gas Transmission	1,080	(223)	857	1,047	(221)	826
US Regulated	8,931	(3,411)	5,520	7,493	(3,154)	4,339
Other activities	713	-	713	824	-	824
Discontinued operations	1,902	(350)	1,552	1,949	(352)	1,597
Total	17,065	(6,277)	10,788	15,290	(5,757)	9,533

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and EPS into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 4 on page 101 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Other unaudited financial information continued

Continuing, discontinued and total Group profits and earnings

The analysis below combines information from elsewhere in the Annual Report (primarily note 9) to reflect key metrics for the Group as if UK Gas Distribution was consolidated throughout the year.

	Including timing								
	Year ended 31 March								
	2017			2016			2015		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	15,035	1,887	16,922	13,212	1,903	15,115	13,357	1,844	15,201
Operating costs	(11,262)	(993)	(12,255)	(9,998)	(1,021)	(11,019)	(10,323)	(1,015)	(11,338)
Adjusted operating profit	3,773	894	4,667	3,214	882	4,096	3,034	829	3,863
Exceptional items and remeasurements	(565)	-	(565)	11	(22)	(11)	(83)	-	(83)
Statutory operating profit	3,208	894	4,102	3,225	860	4,085	2,951	829	3,780
Net finance costs (before exceptionals)	(1,029)	(146)	(1,175)	(856)	(157)	(1,013)	(872)	(161)	(1,033)
Finance exceptionals and remeasurements	(58)	(6)	(64)	(99)	-	(99)	(165)	-	(165)
Total net finance costs	(1,087)	(152)	(1,239)	(955)	(157)	(1,112)	(1,037)	(161)	(1,198)
Share of result of joint ventures and associates	63	-	63	59	-	59	46	-	46
Profit before tax	2,184	742	2,926	2,329	703	3,032	1,960	668	2,628
Tax	(374)	(79)	(453)	(427)	(11)	(438)	(467)	(150)	(617)
Profit after tax before gain on disposal	1,810	663	2,473	1,902	692	2,594	1,493	518	2,011
Gain on disposal of UK Gas Distribution	-	5,321	5,321	-	-	-	-	-	-
Profit after tax including gain on disposal	1,810	5,984	7,794	1,902	692	2,594	1,493	518	2,011

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items and remeasurements. Reconciliation of adjusted operating profit to statutory operating profit is included within note 2.

	Year ended 31 March		
	2017 £m	2016 £m	2015 £m
Adjusted operating profit excluding timing differences	4,291	4,071	3,927
Timing differences from continuing operations	398	(1)	(77)
Timing differences from discontinued operations	(22)	26	13
Adjusted operating profit	4,667	4,096	3,863
Exceptional items and remeasurements	(565)	(11)	(83)
Total operating profit	4,102	4,085	3,780

Reconciliation of adjusted operating profit excluding timing differences to total operating profit

Adjusted operating profit excluding timing differences is discussed on page 20.

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 7 to the consolidated financial statements on page 110.

	Including timing			Excluding timing		
	Year ended 31 March			Year ended 31 March		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Continuing operations						
Adjusted operating profit	3,773	3,214	3,034	3,375	3,215	3,111
Adjusted net finance costs	(1,029)	(856)	(872)	(1,029)	(856)	(872)
Share of post-tax results of joint ventures and associates	63	59	46	63	59	46
Adjusted profit before tax	2,807	2,417	2,208	2,409	2,418	2,285
Adjusted tax	(666)	(604)	(543)	(547)	(619)	(553)
Adjusted profit after tax	2,141	1,813	1,665	1,862	1,799	1,732
Attributable to non-controlling interests	-	(1)	10	-	(1)	10
Adjusted earnings from continuing operations	2,141	1,812	1,675	1,862	1,798	1,742
Exceptional items after tax	(312)	162	(99)	(312)	162	(99)
Remeasurements after tax	(19)	(73)	(73)	(19)	(73)	(73)
Earnings from continuing operations	1,810	1,901	1,503	1,531	1,887	1,570
Discontinued operations						
Adjusted operating profit	894	882	829	916	856	816
Adjusted net finance costs	(146)	(157)	(161)	(146)	(157)	(161)
Adjusted profit before tax	748	725	668	770	699	655
Adjusted tax	(142)	(149)	(152)	(146)	(144)	(150)
Adjusted profit after tax	606	576	516	624	555	505
Attributable to non-controlling interests	1	(2)	(2)	1	(2)	(2)
Adjusted earnings from discontinued operations	607	574	514	625	553	503
Exceptional items after tax from discontinued operations	62	116	2	62	116	2
Remeasurements after tax from discontinued operations	(5)	-	-	(5)	-	-
Gain on disposal of UK Gas Distribution after tax	5,321	-	-	5,321	-	-
Earnings from discontinued operations	5,985	690	516	6,003	669	505

Reconciliation of adjusted operating profit to adjusted earnings and earnings continued

	Including timing			Excluding timing		
	Year ended 31 March			Year ended 31 March		
	2017	2016 ¹	2015 ¹	2017	2016 ¹	2015 ¹
	£m	£m	£m	£m	£m	£m
Continuing and discontinued operations						
Adjusted operating profit	4,667	4,096	3,863	4,291	4,071	3,927
Adjusted net finance costs	(1,175)	(1,013)	(1,033)	(1,175)	(1,013)	(1,033)
Share of post-tax results of joint ventures and associates	63	59	46	63	59	46
Adjusted profit before tax	3,555	3,142	2,876	3,179	3,117	2,940
Adjusted tax	(808)	(753)	(695)	(693)	(763)	(703)
Adjusted profit after tax	2,747	2,389	2,181	2,486	2,354	2,237
Attributable to non-controlling interests	1	(3)	8	1	(3)	8
Total adjusted earnings	2,748	2,386	2,189	2,487	2,351	2,245
Total exceptional items after tax	(250)	278	(97)	(250)	278	(97)
Total remeasurements after tax	(24)	(73)	(73)	(24)	(73)	(73)
Gain on disposal of UK Gas Distribution after tax	5,321	-	-	5,321	-	-
Total earnings	7,795	2,591	2,019	7,534	2,556	2,075

1.Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Reconciliation of adjusted EPS to statutory EPS (including and excluding timing)

Adjusted EPS is presented in note 7 to the consolidated financial statements.

	Including timing			Excluding timing		
	Year ended 31 March			Year ended 31 March		
	2017	2016 ¹	2015 ¹	2017	2016 ¹	2015 ¹
	pence	pence	pence	pence	pence	pence
Adjusted EPS from continuing operations	56.9	48.0	43.9	49.5	47.6	45.6
Exceptional items after tax from continuing operations	(8.3)	4.3	(2.6)	(8.3)	4.3	(2.6)
Remeasurements after tax from continuing operations	(0.5)	(1.9)	(1.9)	(0.5)	(1.9)	(1.9)
EPS from continuing operations	48.1	50.4	39.4	40.7	50.0	41.1
Adjusted EPS from discontinued operations	16.1	15.2	13.4	16.6	14.7	13.1
Exceptional items after tax from discontinued operations	1.6	3.1	0.1	1.6	3.1	0.1
Remeasurements after tax from discontinued operations	(0.1)	-	-	(0.1)	-	-
Gain on disposal of UK Gas Distribution after tax	141.4	-	-	141.4	-	-
EPS from discontinued operations	159.0	18.3	13.5	159.5	17.8	13.2
Total adjusted EPS	73.0	63.2	57.3	66.1	62.3	58.7
Total exceptional items after tax	(6.7)	7.4	(2.5)	(6.7)	7.4	(2.5)
Total remeasurements after tax	(0.6)	(1.9)	(1.9)	(0.6)	(1.9)	(1.9)
Gain on disposal of UK Gas Distribution after tax	141.4	-	-	141.4	-	-
Total EPS	207.1	68.7	52.9	200.2	67.8	54.3

1.Comparative information has been restated to reflect the classification of the UK Gas Distribution business as a discontinued operation and the additional shares issued as scrip dividends.

Capital investment

‘Capital investment’ or ‘investment’ refer to additions to plant, property and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Property Limited joint venture during the period. St William Property Limited is excluded based on the nature of this joint venture arrangement.

£m	For the year ended 31 March		
	2017	2016	% change
UK Electricity Transmission	1,027	1,084	(5%)
UK Gas Transmission	214	186	15%
US Regulated	2,247	1,856	21%
Other activities ¹	374	254	47%
Discontinued operations	588	566	4%
Group capital investment	4,450	3,946	13%

1.Other activities capital investment includes investment in joint ventures, excluding equity contributions to St William Property Limited joint venture.

£m	For the year ended 31 March		
	2017	2016	% change
Capital expenditure	3,735	3,327	12%
Additions within discontinued operations	588	566	4%
Equity and funding contributions to joint ventures and associates	127	53	140%
Group capital investment	4,450	3,946	13%

Other unaudited financial information continued

Other financial information

Funds from operations and interest cover

Funds from operations (FFO) is the cash flows generated by the operations of the Group. Credit rating metrics including FFO are used as indicators of balance sheet strength.

For the years ended 31 March (£m)	2017	2016 ¹	2015 ¹
Interest expense (P&L)	1,082	1,035	1,069
Hybrid interest reclassified as dividend	(51)	(49)	(55)
Capitalised interest	109	112	86
Pensions interest adjustment	(60)	(60)	(48)
Interest on decommissioning liabilities adjustment	1	1	1
Interest on lease rentals adjustment	18	17	32
Unwinding of discount on provisions	(73)	(73)	(73)
Interest paid (discontinued operations)	146	-	-
Adjusted interest expense	1,172	983	1,012
Net cash inflow from operating activities	4,320	5,368	5,007
Interest income on financial instruments	51	23	37
Interest paid on financial instruments	(839)	(834)	(826)
Dividends received	99	72	79
Working capital adjustment	(151)	(456)	(301)
Excess employer pension contributions	606	301	237
Hybrid interest reclassified as dividend	51	49	55
Lease rentals	86	77	65
Difference in net interest expense in income statement to cash flow	(170)	(129)	(156)
Difference in current tax in income statement to cash flow	(47)	(42)	47
Current tax related to prior periods	(46)	(26)	(64)
Cash flow from discontinued operations	909	-	-
Interest paid (discontinued operations)	(146)	-	-
Adjusted funds from operations (FFO)	4,723	4,403	4,180
Interest cover (adjusted funds from operations + adjusted interest expense/adjusted interest expense)	5.0x	5.5x	5.1x

1. Numbers for 2016 and 2015 reflect the calculations for the total group as based on the published accounts for the respective years and have not been restated.

Retained cash flow (RCF)/adjusted net debt

For the years ended 31 March (£m)	2017	2016	2015
Adjusted funds from operations (FFO)	4,723	4,403	4,180
Hybrid interest reclassified as dividend	(51)	(49)	(55)
Dividends paid to shareholders	(1,463)	(1,337)	(1,271)
RCF (headline)	3,209	3,017	2,854
Purchase of treasury shares	(189)	(267)	(338)
RCF (net of share buybacks)	3,020	2,750	2,516
Bank overdrafts	-	3	3
Borrowings	28,638	28,341	25,907
Less:			
50% hybrid debt	(1,033)	(995)	(948)
Cash and cash equivalents	(1,139)	(127)	(119)
Restricted cash	2	2	1
Available-for-sale investments	(7,432)	(1,951)	(1,232)
Underfunded pension obligations	1,487	1,434	1,675
Operating leases adjustment	526	544	588
Derivative asset removed from debt	52	(183)	(89)
Currency swaps	72	55	453
Nuclear decommissioning liabilities reclassified as debt	36	38	22
Collateral - cash received under collateral agreements	(709)	(610)	(540)
Accrued interest removed from short term debt	(210)	(243)	(230)
Adjusted net debt (includes pension deficit)	20,290	26,308	25,491
FFO/adjusted net debt	23.3%	16.7%	16.4%
RCF (headline)/adjusted net debt	15.8%	11.5%	11.2%
RCF (net of share buybacks)/adjusted net debt	14.9%	10.5%	9.9%

Group return on equity (RoE)

The Group RoE calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Calculation: Regulatory financial performance including a long-run assumption of 3.0% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets.

- Adjusted interest removes interest on pensions, capitalised interest and release of provisions.
- Adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest.
- Equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of Other activities and our share of joint ventures and associates; minus opening net debt as reported under IFRS restated to the weighted average £/\$ exchange rate for the year.

Group RoE calculation For the year ended 31 March £m				
	2017	2016	2015	
Regulated financial performance	3,906	3,663	3,741	
Operating profit of other activities	204	374	199	
Group financial performance	4,110	4,037	3,940	
Share of post-tax results of joint ventures & associates	63	59	46	
Non-controlling interests	1	(3)	8	
Adjusted Group interest charge	(1,075)	(922)	(945)	
Group tax charge	(808)	(753)	(695)	
Tax on adjustments	166	4	(14)	
Group financial performance after interest and tax	2,457	2,422	2,340	
Opening rate base/RAV	40,435	36,998	35,237	
Opening NBV of non-regulated businesses	1,579	1,213	1,341	
Joint ventures & associates	408	319	358	
Opening goodwill	5,984	5,182	4,856	
Opening capital employed	48,406	43,712	41,792	
Opening net debt	(27,346)	(24,024)	(21,974)	
Opening equity	21,060	19,688	19,818	
Return on Equity	11.7%	12.3%	11.8%	

UK regulated return on equity (RoE)

UK RoEs are measures of how the businesses are performing operationally against the assumptions used by the regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator and that RPI inflation is equal to a long-run assumption of 3.0%.

Calculation: Base allowed RoE plus or minus the following items:

- Additional allowed revenues/profits earned in the year from incentive schemes, less associated corporation tax charge;
- Totex outperformance multiplied by the company sharing factor set by the regulator; and
- Revenues (net of associated depreciation and base allowed asset return) allowed in the year associated with incentive performance earned under previous price controls but not yet fully recovered, less associated corporation tax charge (excluding logging up or pensions recovery).

Divided by average equity RAV in line with regulatory assumed capital structure.

US regulated return on equity (RoE)

US regulated RoE is a measure of how a business is performing operationally against the assumptions used by the regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric calculated annually.

Calculation: Regulated net income divided by equity rate base.

- Regulated net income calculated as US GAAP operating profit less interest on the adjudicated debt portion of the rate base (calculated at the actual rate on long term debt, adjusted where the proportion of long term debt in the capital structure is materially different from the assumed regulatory proportion) less tax at the adjudicated rate.
- Regulated net income is adjusted for earned savings as appropriate and for certain material specified items.
- Equity rate base is the average rate base for the relevant year as reported to the Group's regulators (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory capital structure.

Year ended 31 March %	Regulatory Debt:Equity assumption	Achieved Return on equity		Base or Allowed Return on Equity	
		2017	2016	2017	2016
UK Electricity Transmission	60/40	13.6%	13.9%	10.2%	10.2%
UK Gas Transmission	62.5/37.5	10.8%	12.5%	10.0%	10.0%
US Regulated ¹	Avg. 50/50	8.2%	8.0%	9.5%	9.7%

1. Comparative information for US Regulated segment was calculated for the 2015 calendar year.

Regulated asset base

As at 31 March (£bn, at constant currency)	Regulated asset value or rate base		Total regulated assets	
	2017	2016	2017	2016
UK Electricity Transmission	12.5	11.8	12.0	11.7
UK Gas Transmission	5.8	5.6	5.7	5.7
US Regulated	15.4	14.6	17.1	16.2
Total Group excluding UK Gas Distribution	33.7	32.0	34.8	33.6
UK Gas Distribution	8.9	8.7	8.9	8.6
Total Group	42.6	40.7	43.7	42.2

US rate base and total regulated assets for 31 March 2016 have been restated in the table above at constant currency. At actual currency the values were £12.7 billion and £14.1 billion respectively.

Invested capital at 31 March 2017 for Other activities was £2.2 billion (31 March 2016: £2.0 billion at constant currency).

Regulated asset base growth has been disclosed on page 13.

Commentary on consolidated financial statements for the year ended 31 March 2016

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit (for the continuing group) by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2016. This should be read in conjunction with the 31 March 2017 unaudited commentary included on pages 85, 89, 97 and 98.

Analysis of the income statement for the years ended 31 March 2016 and 31 March 2015

Revenue

Revenue for the year ended 31 March 2016 decreased by £145 million to £13,212 million. This decrease was driven by lower revenues in our US Regulated business, partly offset by revenue growth across all of our other businesses, in particular UK Electricity Transmission. US Regulated revenues were £493 million lower year on year due to lower commodity costs passed on to customers and unfavourable timing of recoveries. This was partly offset by higher increased revenue allowances under the Niagara Mohawk three year rate plan and the benefits of capex trackers and the stronger US dollar. UK Electricity Transmission revenue increased by £223 million, mostly reflecting the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs.

Revenue for the year ended 31 March 2015 increased by £416 million to £13,357 million. This increase was driven by higher revenues in our UK ET business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK GT. Our US Regulated business revenues were lower, as a result of the end of the LIPA MSA in the prior year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Operating costs

Operating costs for the year ended 31 March 2016 of £9,987 million were £419 million lower than the prior year. This decrease in costs included a £94 million impact in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £325 million lower, principally due to lower pass-through costs such as gas and electric commodity costs in the US and additional costs incurred the year before in the US to improve data quality and bring regulatory filings up to date, partially offset by higher depreciation as a result of newly commissioned assets and the impact of the stronger US dollar on sterling results.

Operating costs for the year ended 31 March 2015 of £10,406 million were £358 million higher than the prior year. This increase in costs included a £199 million year on year impact of changes in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £159 million higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following the previous year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of the year.

Exceptional operating items and remeasurements

Operating costs for the year ended 31 March 2016 included an £11 million gain on remeasurement of commodity contracts.

Operating costs for the year ended 31 March 2015 included an £83 million loss (2013/14: £16 million gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £100 million gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254 million and restructuring costs of £91 million, primarily in the UK as we reorganised certain parts of our business to deliver under the new RII0 price controls, and a £79 million provision for the demolition of UK gas holders that were no longer required.

Net finance costs

For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements were £16 million lower than 2014/15 at £856 million, mainly as a result of lower UK RPI inflation, continued focus on management of cash balances and the benefit of the prior year's debt repurchases, partially offset by increased borrowings and the impact of the stronger US dollar.

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £66 million lower than 2013/14 at £872 million, mainly as a result of lower average gross debt through the year, lower RPI in the UK and refinancing debt at lower rates.

Exceptional finance costs for the year ended 31 March 2016 included a loss of £99 million on financial remeasurements, relating to net losses on derivative financial instruments. The year ended 31 March 2015 included exceptional debt redemption costs of £131 million and a loss of £34 million on financial remeasurements relating to net losses on derivative financial instruments. The year ended 31 March 2014 included a gain of £93 million on financial remeasurements.

Tax

The tax charge on profits before exceptional items and remeasurements for the year ended 31 March 2016 was £61 million higher than 2014/15. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year was 25.0% (2014/15: 24.6%).

The tax charge on profit before exceptional items and remeasurements for the year ended 31 March 2015 was £126 million higher than 2013/14. This was mainly due to higher profits before tax and the non recurrence of one-off items that benefited the prior year.

Exceptional tax for 2015/16 was a credit of £177 million which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate from 20% to 18%.

Exceptional tax for 2014/15 of £76 million primarily represents tax credits on the exceptional items and remeasurements described above.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2016 were £1,812 million. For the year ended 31 March 2015, adjusted earnings were £1,675 million.

The above earnings performance translated into adjusted EPS growth in 2015/16 of 4.1 pence (9%) and 5.5 pence (14%) in 2014/15.

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated for shares issued via scrip dividends and the bonus element of the 2010 rights issue.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2016

UK Electricity Transmission

For the year ended 31 March 2016, revenue in the UK Electricity Transmission segment increased by £223 million to £3,977 million, and adjusted operating profit decreased by £64 million to £1,173 million. The revenue growth of £223 million was principally due to the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs, and under-recoveries of allowed revenues in the prior year. This was partly offset by reductions in allowed revenues in 2015/16 and a legal settlement received in 2014/15 that did not repeat in 2015/16. Net revenue (after deducting pass-through costs) was £14 million higher. Regulated controllable costs were £28 million higher due to inflation and salary growth, together with legal cost recoveries in the prior year, higher tower maintenance costs and transformation costs associated with our System Operator role. Depreciation and amortisation was £14 million higher reflecting the continued capital investment programme. Other costs were £36 million higher than prior year due to additional asset impairments this year and lower scrap and disposal proceeds.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £25 million in 2015/16 to £1,047 million and adjusted operating profit increased by £49 million to £486 million. Revenue was £25 million higher, principally due to over-recoveries of allowed revenues in the year. Regulated controllable costs were £10 million higher than the previous year, mainly as a result of inflation, higher gas system service charges and organisational change costs. Depreciation costs were £6 million higher due to ongoing investment. Other operating costs were £19 million lower than the previous year, mostly reflecting additional costs in 2014/15 relating to the closure of LNG facilities.

US Regulated

Revenue in our US Regulated businesses was £493 million lower at £7,493 million, while adjusted operating profit increased by £21 million to

£1,185 million. The stronger US dollar increased operating profit in the year by £81 million. Excluding the impact of foreign exchange rate movements, revenue decreased by £1,051 million, principally as a result of lower commodity costs passed on to customers and unfavourable timing of recoveries year over year, partly offset by higher revenue allowances under the Niagara Mohawk three year rate plan and the benefit of capex trackers. The reduction in revenue was mostly offset by a £1,027 million reduction in pass-through costs incurred (excluding the impact of foreign exchange). Regulated controllable costs reduced by £71 million at constant currency, partly as a result of lower gas leak and compliance work this year and additional costs incurred last year to improve data quality and bring regulatory filings up to date. Depreciation and amortisation costs were £51 million higher this year at constant currency as a result of ongoing investment in our networks. Pension costs were £15 million higher at constant currency due to changes in actuarial discount rates, while other operating costs were £41 million higher at constant currency including higher asset removal costs.

Other activities

Revenue in Other activities increased by £110 million to £824 million in the year ended 31 March 2016. Adjusted operating profit was £174 million higher at £370 million. In the US, adjusted operating profit was £143 million higher, reflecting lower spend on upgrades to our finance systems which completed last year. In addition, we benefited from a £49 million gain on disposal of our investment in the Iroquois pipeline, and the deconsolidation of our investment in Clean Line. In the UK, adjusted operating profit was £31 million higher as a result of strong auction revenues at the French interconnector and higher property sales.

Analysis of the statement of financial position for the year ended 31 March 2016

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets

Goodwill and intangibles increased by £255 million to £6,202 million as at 31 March 2016. This increase primarily relates to foreign exchange movements of £184 million and software additions of £220 million, partially offset by software amortisation of £147 million.

Property, plant and equipment

Property, plant and equipment increased by £2,641 million to £43,364 million as at 31 March 2016. This was principally due to capital expenditure of £3,673 million on the renewal and extension of our regulated networks and foreign exchange movements of £543 million, offset by depreciation of £1,467 million in the year. See page 22 for further details of our capital expenditure.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £233 million to £961 million. This is primarily due to an increase in investments in joint ventures of £79 million, together with an increase in available-for-sale investments of £152 million.

Inventories and current intangible assets, and trade and other receivables

Inventories and current intangible assets, and trade and other receivables have decreased by £284 million to £2,832 million as at 31 March 2016. This is due to an increase in inventories and current intangible assets of £97 million, more than offset by a net decrease in trade and other receivables of £381 million. The £381 million decrease consists of a foreign exchange impact of £57 million due to the stronger US dollar against sterling offset by a decrease in the underlying balances of £421 million, reflecting collection of high 2015 winter billings, coupled with the impact of the recent mild winter.

Trade and other payables

Trade and other payables have decreased by £7 million to £3,285 million, primarily due to a foreign exchange impact of £48 million more than offset by movements in the US related to warmer weather and energy billing settlements.

Current tax balances

Net current tax balances have increased by £51 million to £175 million as at 31 March 2016, which includes a £77 million current tax asset (£60 million current tax asset in 2014/15 included in trade and other receivables). This is primarily due to the tax payments made in 2015/16 being only partially offset by a smaller current year tax charge.

Deferred tax balances

Deferred tax balances have increased by £337 million to £4,634 million as at 31 March 2016. This was primarily due to the impact of the £125 million deferred tax charge on actuarial gains in reserves (£299 million tax credit in 2014/15) and foreign exchange movements being offset by the impact of the reduction in the UK statutory tax rate.

Provisions and other non-current liabilities

Provisions (both current and non-current) and other non-current liabilities increased by £136 million to £3,790 million as at 31 March 2016.

Total provisions decreased by £16 million in the year. The underlying movements include additions of £63 million, primarily relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £33 million, together with foreign exchange movements of £42 million, offset by utilisation of £200 million in relation to all classes of provisions.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 90.

Net pension and other post-retirement obligations

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

	UK £m	US £m	Total £m
Net plan liability			
As at 1 April 2015	(672)	(2,586)	(3,258)
Exchange movements	-	(81)	(81)
Current service cost	(74)	(147)	(221)
Net interest cost	(18)	(94)	(112)
Curtailements and other	(24)	(15)	(39)
Actuarial (losses)/gains			
- on plan assets	(18)	(320)	(338)
- on plan liabilities	552	325	877
Employer contributions	239	348	587
As at 31 March 2016	(15)	(2,570)	(2,585)
Represented by:			
Plan assets	19,401	7,033	26,434
Plan liabilities	(19,416)	(9,603)	(29,019)
	(15)	(2,570)	(2,585)

The principal movements in net obligations during the year include net actuarial gains of £539 million and employer contributions of £587 million. Net actuarial gains include actuarial gains on plan liabilities of £877 million arising as a consequence of decreases in the nominal discount rate in the US and experience gains reflecting liability experience throughout the year including the impact of pension increases being lower than assumed and some updates to the way a section of plan liabilities is estimated. This is partially offset by actuarial losses of £338 million arising on plan assets resulting from actual asset returns being less than assumed returns which is based upon the discount rate at the start of the year.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2017. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2013, 2014, 2015, 2016 and 2017 has been prepared under IFRS issued by the IASB and as adopted by the EU¹.

	2017	2016 ¹	2015 ¹	2014 ¹	2013 ^{1,2}
Summary income statement (£m)					
Continuing operations					
Revenue	15,035	13,212	13,357	12,941	12,673
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	3,773	3,214	3,034	2,777	2,866
Exceptional items, remeasurements and stranded cost recoveries	(565)	11	(83)	116	141
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	2,807	2,417	2,208	1,867	1,922
Exceptional items, remeasurements and stranded cost recoveries	(623)	(88)	(248)	209	209
Profit after tax from continuing operations					
Before exceptional items, remeasurements and stranded cost recoveries	2,141	1,813	1,665	1,450	1,452
Exceptional items, remeasurements and stranded cost recoveries	(331)	89	(172)	324	208
Profit after tax from discontinued operations					
Before exceptional items, remeasurements and stranded cost recoveries	606	576	516	553	462
Exceptional items, remeasurements and stranded cost recoveries	57	116	2	137	32
Gain/(loss) on disposal of UK Gas Distribution after tax	5,321	-	-	-	-
Total profit for the year	7,794	2,594	2,011	2,464	2,154
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	2,748	2,386	2,189	2,015	1,913
Exceptional items, remeasurements and stranded cost recoveries	(274)	205	(170)	461	240
Gain on disposal of UK Gas Distribution after tax	5,321	-	-	-	-
Total	7,795	2,591	2,019	2,476	2,153
Earnings per share					
Basic – continuing operations (pence) ³	48.1	50.4	39.4	46.9	43.5
Diluted – continuing operations (pence) ³	47.9	50.2	39.2	46.6	43.2
Basic – discontinued operations (pence) ³	159.0	18.3	13.5	18.0	13.0
Diluted – discontinued operations (pence) ³	158.3	18.2	13.5	17.9	13.0
Basic – total (pence) ³	207.1	68.7	52.9	64.9	56.5
Diluted – total (pence) ³	206.2	68.4	52.7	64.5	56.2
Number of shares – basic (millions) ⁴	3,763	3,774	3,817	3,817	3,813
Number of shares – diluted (millions) ⁴	3,780	3,790	3,834	3,836	3,832
Dividends per ordinary share					
Paid during the year (pence)	43.51	43.16	42.25	40.85	39.84
Approved or proposed during the year (pence) ⁵	128.65	43.34	42.87	42.03	40.85
Paid during the year (\$)	0.555	0.664	0.697	0.636	0.633
Approved or proposed during the year (\$)	1.642	0.635	0.672	0.696	0.632

- Items previously reported for 2013-2016 have been represented to reflect UK Gas Distribution being presented as a discontinued operation in the current year.
- For the years ended 31 March 2015, 31 March 2016 and 31 March 2017, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2013 were restated to show the impact of IAS 19 (revised).
- Items previously reported for 2013-2016 have been restated to reflect the impact of the bonus element of the rights issue and the additional shares issued as scrip dividends.
- Number of shares previously reported for 2013-2016 have been restated to reflect the impact of the additional shares issued as scrip dividends.
- Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that will be paid on 2 June 2017.

	2017	2016	2015	2014	2013 ¹
Summary statement of net assets					
Non-current assets	52,266	52,622	49,058	44,895	45,129
Current assets	13,574	6,312	6,031	7,489	9,576
Total assets	65,840	58,934	55,089	52,384	54,705
Current liabilities	(10,511)	(7,721)	(7,374)	(7,331)	(7,445)
Non-current liabilities	(34,945)	(37,648)	(35,741)	(33,134)	(37,026)
Total liabilities	(45,456)	(45,369)	(43,115)	(40,465)	(44,471)
Net assets	20,384	13,565	11,974	11,919	10,234
Total shareholders' equity	20,368	13,555	11,962	11,911	10,229

1. For the years ended 31 March 2017, 31 March 2016 and 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the year to 31 March 2013 were restated to show the impact of IAS 19 (revised).

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual asset growth

‘Annual asset growth’ measures the increase in ‘total regulatory value and other investments’ defined below.

Annual General Meeting (AGM)

Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BEIS

The Department for Business, Energy and Industrial Strategy, being the UK Government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy, which was formed in July 2016 merging the functions of the former Department of Energy and Climate Change and Department for Business, Innovation and Skills (BIS).

Board

The Board of Directors of the Company (for more information see pages 34 and 35).

bps

Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed

BritNed Development Limited.

C

called up share capital

Shares (common stock) that have been issued and have been fully paid for.

Capital investment

‘Capital investment’ or ‘investment’ refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures, other than the St William joint venture during the period. St William is excluded based on the nature of this joint venture arrangement.

carrying value

The amount at which an asset or a liability is recorded in the Group’s statement of financial position and the Company’s balance sheet.

the Company, the Group, National Grid, we, our or us

We use the terms ‘the Company’, ‘the Group’, ‘National Grid’, ‘we’, ‘our’ or ‘us’ to refer to either National Grid plc itself or to National Grid plc and/ or all or certain of its subsidiaries, depending on context.

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.

Consortium

The consortium which purchased a 61% equity interest in the UK Gas Distribution business on 31 March 2017, comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

Constant currency

‘Constant currency basis’ refers to the reporting of the actual results against the results for the same period last year which, in respect of any US\$ currency denominated activity, have been translated using the average US\$ exchange rate for the year ended 31 March 2017, which was \$1.28 to £1.00. The average rate for the year ended 31 March 2016, was \$1.47 to £1.00. Assets and liabilities as at 31 March 2016 have been retranslated at the closing rate at 31 March 2017 of \$1.25 to £1.00. The closing rate for the balance sheet date 31 March 2016 was \$1.44 to £1.00.

contingent liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth

Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB

Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC

Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees’ salaries.

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement

Deposit Agreement means the agreement entered into between National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs, pursuant to which ADSs have been issued, dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement.

Depository

Depository means The Bank of New York Mellon acting as depository.

Directors/Executive Directors/Non-executive Directors

The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 34 and 35 of this document.

dollars or \$

Except as otherwise noted all references to dollars or \$ in this Annual Report and Accounts relate to the US currency.

E

earnings per share (EPS)

Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)

An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

Electricity System Operator (ESO)

The party responsible for the long-term strategy, planning and real time operation (balancing supply and demand) of the electricity system in Great Britain.

employee engagement

A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention

The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU

The European Union, being the economic and political union of 28 member states located in Europe.

Exchange Act

The US Securities Exchange Act 1934, as amended.

F

FERC

The US Federal Energy Regulatory Commission.

finance lease

A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year

For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS

A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 166 to 171, which are prepared in accordance with FRS 101.

G

Grain LNG

National Grid Grain LNG Limited.

Great Britain

England, Wales and Scotland.

Group return on equity (Group RoE)

The Group return on equity calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW

Gigawatt, being an amount of power equal to 1 billion watts (10⁹ watts).

GWh

Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HMRC

HM Revenue & Customs. The UK tax authority.

HVDC

High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I

IAS or IFRS

An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements

Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

J

joint venture

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

K

KEDLI

KeySpan Gas East Corporation.

KEDNY

The Brooklyn Union Gas Company.

kV

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

kW

Kilowatt, being an amount of power equal to 1,000 watts.

kWh

Kilowatt month, being an amount of energy equivalent to delivering 1kW of power for a period of one month.

Definitions and glossary of terms continued

L	
LIPA	The Long Island Power Authority.
LNG	
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).	
lost time injury (LTI)	An incident arising out of National Grid’s operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid’s premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.
lost time injury frequency rate (IFR)	The number of lost time injuries per 100,000 hours worked in a 12 month period.
M	
MADPU	The Massachusetts Department of Public Utilities.
MSA	The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.
MW	Megawatt, being an amount of power equal to 1 million watts.
N	
National Grid Metering (NGM)	National Grid Metering Limited, National Grid’s UK regulated metering business.
Net revenue	‘Net revenue’ is revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.
New England	The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid’s New England operations are primarily in the states of Massachusetts and Rhode Island.
northeastern US	The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.
NTS	The gas National Transmission System in Great Britain.
NYPSC	The New York Public Service Commission.

O	
Ofgem	The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.
OPEB	Other post-employment benefits.
ordinary shares	Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid’s ordinary shares have a nominal value of 1117/43 pence. Subject to shareholder approval of the proposed share consolidation at the General Meeting of the Company to be held on 19 May 2017, the nominal value of National Grid’s ordinary shares will be 12204/473 with effect from 22 May 2017.
P	
price control	The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.
R	
rate base	The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.
rate plan	The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator’s own initiative.
regulated controllable costs	Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.
regulatory asset value (RAV)	The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.
return on capital employed (RoCE)	The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (RoE)

A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

revenue decoupling

Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO

The revised regulatory framework issued by Ofgem which was implemented in the eight-year price controls which started on 1 April 2013.

RIPUC

The Rhode Island Public Utilities Commission.

RPI

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

S**Scope 1 greenhouse gas emissions**

Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions

Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions

Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC

The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF₆

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 SF₆ is 23,900 times more potent than that of CO₂.

share premium

The difference between the amount shares are issued for and the nominal value of those shares.

stranded cost recoveries

The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM

Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary

A company or other entity that is controlled by National Grid.

swaption

A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T**taxes borne**

Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected

Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention

Tax Convention means the income tax convention between the US and the UK.

tonne

A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO₂e)

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Total regulatory value and other investments

The sum of: the regulatory asset value of the UK regulated businesses determined under the methodology set out in Ofgem's Price Control Financial Model; the rate bases applicable to each US regulated entity calculated according to the methodology used by each respective utility regulator; the value of assets held by the Group's other activities; together with investments in joint ventures and associates. Other activities primarily relate to non-network businesses and other commercial operations including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; and a UK LNG import terminal.

Totex

Total expenditure, comprising capital and operating expenditure.

treasury shares

Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh

Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

Definitions and glossary of terms continued

U

UK

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

UK Corporate Governance Code (the Code)

Guidance, issued by the Financial Reporting Council in September 2014 (as updated in 2016 to reflect forthcoming legislation on audit committees and auditor appointments), on how companies should be governed, applicable to UK listed companies, including National Grid.

UK GAAP

Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)

UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

US

The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP

Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US regulated return on equity (US RoE)

US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric and is calculated annually. For 2016/17, it is calculated on a fiscal year basis. For 2015/16 and prior years, it is calculated on a calendar year basis.

US state regulators (state utility commissions)

In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value Added

Value Added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year plus share repurchase costs less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

Value Growth

Value Growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend plus share repurchase costs less net debt, as a percentage.

Want more information or help?

Capita Asset Services

For queries about [ordinary shares](#):



0371 402 3344

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344



Visit the National Grid share portal
www.nationalgridshareholders.com
Email: nationalgrid@capita.co.uk



National Grid Share
Register Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon

For queries about [American Depositary Shares](#):



1-800-466-7215

If calling from outside the US:
+1-201-680-6825



www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com



The Bank of New York Mellon
Depository Receipts
PO Box 30170
College Station, Texas 77842-3170

Further information about National Grid including share price and interactive tools can be found on our website:
www.nationalgrid.com

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar

The following dates have been announced or are indicative:

31 May 2017	ADRs go ex-dividend for 2016/17 final dividend
1 June 2017	Ordinary shares go ex-dividend for 2016/17 final dividend
2 June 2017	Record date for 2016/17 final dividend
8 June 2017	Scrip reference price announced
19 June 2017	Scrip election date
31 July 2017	2017 AGM
16 August 2017	2016/17 final dividend paid to qualifying shareholders
9 November 2017	2017/18 half-year results
22 November 2017	ADRs go ex-dividend for 2017/18 interim dividend
23 November 2017	Ordinary shares go ex-dividend for 2017/18 interim dividend
24 November 2017	Record date for 2017/18 interim dividend
10 January 2018	2017/18 interim dividend paid to qualifying shareholders
May 2018	2017/18 preliminary results

Dividends

The Directors are recommending a final dividend of 29.10 pence per ordinary share (\$1.8924 per ADS) to be paid on 16 August 2017 to shareholders on the register as at 2 June 2017. Further details in respect of dividend payments can be found on page 22. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to \$0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of \$0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:

- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Elect to receive your dividends as additional shares:

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

Electronic communications

To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Registered office

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1-3 Strand, London WC2N 5EH.

Share dealing

Capita Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or by telephone.

Internet Dealing Commission – 0.4% of the trade value (minimum £16.20, maximum £62.20) until 30 June 2017. 0.50% of the trade (minimum £19.00, maximum £76.50) after 30 June 2017.

Postal Dealing Commission – 10 pence per share (maximum £10) when selling 1-150 shares, flat fee of £15 when selling 151 shares or more. No commission will be chargeable for shareholders holding up to 50 shares until 30 June 2017.

Telephone Dealing Commission – 0.75% of the trade (minimum £24.50, maximum £114.50).

Visit www.capitadeal.com/nationalgrid or call Capita Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For more information visit www.sharegift.org.uk or contact Capita Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443, email isa@stocktrade.co.uk or write to Stocktrade, 7th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8EX.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2017 for National Grid and its subsidiaries.

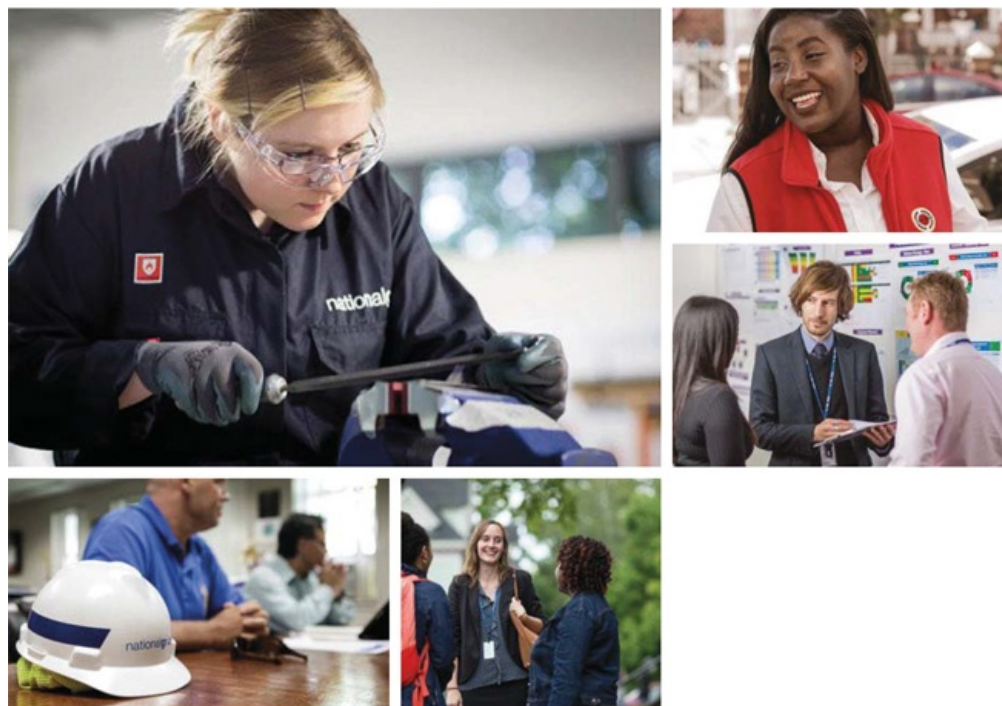
It contains the Directors’ Report and Financial Statements, together with the independent auditors’ report thereon, as required by the Companies Act 2006. The Directors’ Report, comprising pages 8 to 71 and 172 to 201 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as ‘anticipates’, ‘expects’, ‘should’, ‘intends’, ‘plans’, ‘believes’, ‘outlook’, ‘seeks’, ‘estimates’, ‘targets’, ‘may’, ‘will’, ‘continue’, ‘project’ and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom’s exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the role of the electricity system operator; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document

include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries’ transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes to the energy mix and the integration of distributed energy resources and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with the Company’s sale of a majority interest in its UK Gas Distribution business and joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 180 to 183 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.



nationalgrid

National Grid plc
1-3 Strand
London WC2N 5EH
United Kingdom
www.nationalgrid.com

Further Information

Exchange Rates

The following table sets forth the history of the exchange rates of one pound sterling to US dollars for the periods indicated and as at the latest practicable date, 1 June 2017.

	High	Low
June 2017*	1.2903	1.2903
May 2017	1.3026	1.2791

* For the period to 1 June 2017.

Share ownership

At 1 June 2017, the latest practicable date, none of the directors had an individual beneficial interest amounting to greater than 1% of the Company's shares.

Material interests in shares

The following summarizes the significant changes in the percentage ownership held by our major shareholders during the past three years:

Black Rock, Inc. has held 5.21% of our outstanding share capital as at 5 June 2014, and 5 June 2015, which holdings increased to 5.88% as at 31 March 2016 and decreased to 3.92% as at 3 June 2016. As noted on page 186 of the 2016/2017 Annual Report and Accounts, we have been notified that Black Rock, Inc. held 6.01% of our outstanding share capital as at 31 March 2017, and such holdings increased as at 31 May 2017 to 6.28% which percentage remains unchanged as at 1 June 2017.

Capital Group Companies, Inc. held 11.03% of our outstanding share capital as at 31 March 2014, which holdings decreased to 4.981% as at 31 March 2015 and to 3.88% as at 31 March 2016. As noted on page 186 of the 2016/2017 Annual Report and Accounts, we have been notified that Capital Group Companies, Inc. held 3.88% of our outstanding share capital as at 31 March 2017, and such holdings remain unchanged as at 1 June 2017.

Since 31 March 2017, we have not been notified of any other subsequent significant change in the percentage of shares held by the shareholders, listed on page 186 of the 2016/2017 Annual Report and Accounts

Material interest in American Depositary Shares

As at 1 June 2017, we had 13,482 registered holders of our American Depositary Shares (ADSs) representing ownership of 10.95% of our issued and outstanding share capital, excluding ordinary shares held in treasury. As at 1 June 2017, based on information available to us, we believe that approximately 10.97% of our issued and outstanding share capital (whether in the form of shares or ADSs), excluding shares held in treasury, was held beneficially in the United States.

Price history

The following table sets forth the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary Share (Pence)		ADS (\$)	
	High	Low	High	Low
June 2017*	1,069.50	1,049.50	68.35	67.90
May 2017	1,174.40	1,049.50	75.24	68.40

* For the period to 1 June 2017, the latest practicable date.

Subsequent Events

On 19 May 2017, the Company held a General Meeting to seek the shareholder approval for a proposed share consolidation, on an 11 for 12 basis, in connection with the return of cash as a result of the sale of a majority interest in our UK Gas Distribution business. This and all related resolutions were approved by shareholders at the General Meeting. The consolidation was effective on 22 May 2017. Additionally, in connection with the sale of a majority interest in our UK Gas Distribution business, a special dividend of 84.375 pence per share (\$5.4224 per American Depositary Share) was paid on 2 June 2017.

Exhibits

Pursuant to the rules and regulations of the SEC, National Grid has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties to them. These representations and warranties have been made solely for the benefit of the other party or parties to such agreement and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been

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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.

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Description

1.1	Articles of Association of National Grid plc adopted by Special Resolution passed on 30 July 2012.	Incorporated by reference
2(a)	Amended and restated Deposit Agreement dated as of 23 May 2013 among National Grid plc and The Bank of New York Mellon, as Depository, and all Owners and Holders from time to time of American Depositary Shares issued thereunder. (Exhibit 1 to National Grid plc Form F-6 dated 15 May 2013 File No. 333-178045)	Incorporated by reference
2(b).1	Amended and Restated Trust Deed dated 26 July 2010 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).1 to National Grid plc Form 20-F dated 13 June 2011 File No. 1-14958)	Incorporated by reference
2(b).2	Amended and Restated Trust Deed dated 18 February 2011 among National Grid Gas plc, National Grid Gas Finance (no 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).2 to National Grid plc Form 20-F dated 13 June 2011 File No. 1-14958)	Incorporated by reference
2(b).3	Amended and Restated Trust Deed dated 22 February 2012 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).3 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
2(b).4	Amended and Restated Trust Deed dated 2 August 2011 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).5 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
2(b).5	Amended and Restated Trust Deed dated 27 March 2013 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).5 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
2(b).6	Amended and Restated Trust Deed dated 10 September 2012 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).6 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
2(b).7	Amended and Restated Trust Deed dated 12 September 2013 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).7 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).8	Amended and Restated Trust Deed dated 20 December 2013 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).8 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).9	Amended and Restated Trust Deed dated 12 September 2014 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).9 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).10	Amended and Restated Trust Deed dated 18 December 2014 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).10 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).11	Amended and Restated Trust Deed dated 18 July 2014 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c. relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).11 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).12	Amended and Restated Trust Deed dated 14 August 2015 among National Grid Gas plc, National Grid Gas Finance (No 1) plc and the Law Debenture Trust Corporation p.l.c.	Incorporated by reference

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	relating to a €10,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).12 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	
2(b).13	Amended and Restated Trust Deed dated 21 September 2015 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to National Grid plc and National Grid Electricity Transmission plc €15,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).13 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
2(b).14	Amended and Restated Trust Deed dated 9 December 2015 among National Grid USA, National Grid North America Inc. and the Law Debenture Trust Corporation p.l.c. relating to National Grid USA €4,000,000,000 Euro Medium Term Note Programme. (Exhibit 2(b).14 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(b).1	Acquisition Agreement between National Grid Holdings One plc and Quadgas Investments BidCo Limited and Quadgas HoldCo Limited and Quadgas PledgeCo Limited and Quadgas MidCo Limited relating to the subscription of shares in GasD HoldCo and the acquisition of GasD OpCo and GasD PropCo, dated 8 December 2016, as amended and restated on 30 March 2017. Confidential treatment has been requested. Confidential material has been redacted and separately filed with the SEC.	Filed herewith
4(b).2	Further Acquisition Agreement between National Grid Holdings One plc and Quadgas Investments Bidco Limited relating to the acquisition of shares in GasD HoldCo, dated 31 March 2017. Confidential treatment has been requested. Confidential material has been redacted and separately filed with the SEC.	Filed herewith
4(c).1	Service Agreement among The National Grid plc and Andrew Bonfield dated 1 November 2010. (Exhibit 4(c).20 to National Grid plc Form 20-F dated 13 June 2011 File No 1-14958)	Incorporated by reference
4(c).2	Service Agreement among National Grid Electricity Transmission plc and John Mark Pettigrew dated 2 November 2014. (Exhibit 4(c).5 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(c).3	Amendment to Service Agreement. (Exhibit 4(c).5 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958) among National Grid Electricity Transmission plc and John Mark Pettigrew dated 2 November 2015	Incorporated by reference
4(c).4	Service Agreement among National Grid Electricity Transmission plc and Nicola Shaw dated 23 March 2016.	Filed herewith
4(c).5	Letter of Appointment–Sir Peter Gershon. (Exhibit 4(c).10 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).6	Letter of Appointment–Paul Golby. (Exhibit 4(c).11 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).7	Letter of Appointment–Ruth Kelly. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 12 June 2012 File No. 1-14958)	Incorporated by reference
4(c).8	Letter of Appointment–Nora Mead Brownell. (Exhibit 4(c).13 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
4(c).9	Letter of Appointment–Mark Williamson. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
4(c).10	Letter of Appointment–Jonathan Dawson. (Exhibit 4(c).15 to National Grid plc Form 20-F dated 6 June 2013 File No. 1-14958)	Incorporated by reference
4(c).11	Letter of Appointment–Therese Esperdy. (Exhibit 4(c).14 to National Grid plc Form 20-F dated 5 June 2014 File No. 1-14958)	Incorporated by reference
4(c).12	Letter of Appointment–Pierre Dufour	Filed herewith
4(c).13	Employment Agreement among National Grid plc, National Grid USA and Dean Seavers dated 22 October 2014.	Incorporated by reference
4(c).14	National Grid plc Deferred Share Plan. (Exhibit 4.2 to National Grid plc S-8 dated 28	Incorporated by reference

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July 2011 File No. 333-175852)

4(c).15	National Grid Executive Share Option Plan 2002. (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).16	National Grid Group Share Matching Plan 2002. (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).17	National Grid Transco Performance Share Plan 2002 (as approved 23 July 2002 by a resolution of the shareholders of National Grid Group plc, adopted 17 October 2002 by a resolution of the Board of National Grid Group plc, amended 26 June 2003 by the Share Schemes Sub-Committee of National Grid Transco plc, and amended 5 May 2004 by the Share Schemes Sub-Committee of National Grid Transco plc). (Exhibit 4.19 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).19	National Grid Executive Share Option Scheme. (Exhibit 4D to National Grid Group S-8 dated 26 July 2001 File No. 333-65968)	Incorporated by reference
4(c).20	Lattice Group Short Term Incentive Scheme (approved by a resolution of the shareholders of BG Group plc effective 23 October 2000; approved by a resolution of the Board of National Grid Transco plc on 30 April 2004; amended by resolutions of the Board of Lattice Group plc effective on 21 October 2002 and 13 May 2004). (Exhibit 4.23 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).21	National Grid USA Companies' Defined Contribution Supplemental Executive Retirement Plan. (Exhibit 4.2 to National Grid plc S-8 dated 23 October 2012 File No. 14958)	Incorporated by reference
8	List of subsidiaries—The list of the Company's significant subsidiaries as of 31 March 2017 is incorporated by reference to "Financial Statements—Notes to the consolidated financial statements—32. Subsidiary undertakings, joint venture and associates—Subsidiary undertakings" on pages 154-156 included in the Annual Report on Form 20-F for the financial year ended 31 March 2017. This list excludes subsidiaries that do not, in aggregate, constitute a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X as at 31 March 2017.	Incorporated by reference
12.1	Certification of John Pettigrew pursuant to Rule 13a-14(a) of the Exchange Act.	Filed herewith
12.2	Certification of Andrew Bonfield pursuant to Rule 13a-14(a) of the Exchange Act.	Filed herewith
13.1	Certifications of John Pettigrew and Andrew Bonfield furnished pursuant to Rule 13a-14(b) of the Exchange Act (such certifications are not deemed filed for purpose of Section 18 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

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The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

NATIONAL GRID PLC

By: /s/Andrew Bonfield
Andrew Bonfield
Finance Director

London, England
6 June 2017