

BRITISH TRANSCO INTERNATIONAL
FINANCE B.V.

Amsterdam, The Netherlands

Annual Report
for the year ended 31 March 2016

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BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

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BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Directors' Report

The Board of Directors of British Transco International Finance B.V. ('the Company'), herewith submits its Annual Report for the year ended 31 March 2016.

Summary of activities

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

Results for the year

The profit for the year is EUR 891,684 (p.y. EUR 1,305,335). This result is mainly the result of a spread on the proceeds of bearer bonds which have been lent to a group company. The lower result for this year compared to previous year is mainly caused by the development of the EUR/USD exchange rate during the year. Per 31 March 2016 the Company's current ratio is 8.32 (p.y. 8.94).

There have been no unusual events during the reporting year.

Risk Management

The Company does not have any significant exposure with regard to interest rate or foreign currency risk. All incoming loans and bonds issued are guaranteed by the shareholder. The Company maintains an equity of EUR 3,783,716 (p.y. EUR 3,066,511), being its equity at risk to comply with the Dutch tax practice for group finance companies. Apart from the credit risk on the outstanding loans to the shareholder, due to the back to back nature of the bond loan and the loan to the shareholder, the financial risk the Company bears is limited to the amount of capital and reserves, which according to the advanced pricing agreements made with the fiscal authorities is required to be set at a minimum of EUR 2,000,000. The objective of the Company is not to bear any more financial risks. See also note 3 to the financial statements.

Future outlook

The results in future years will be mainly influenced by the profit margin on the present and future financing activities and is expected to be in line with the current year and prior years.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Post-balance sheet events

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

Activities in the field of research and development

The Company is not engaged in such activities.

Management Board/Supervisory board

The Company has taken notice of adopted legislation effective as of 1 January 2013 as a consequence of which The Company, when nominating or appointing members of the Management Board or Supervisory Board, should take into account as much as possible a balanced composition of these Boards in terms of gender, to the effect that at least 30 per cent of the positions are held by women and at least 30 per cent by men.

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

Audit Committee

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

The Directors



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F.L. Beaney



TMF Netherlands B.V.

Amsterdam, 28 July 2016

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Conformity statement

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

- The British Transco International Finance B.V. financial statements for the year ended 31 March 2016 give a true and fair view of the assets, liabilities, financial position and income of British Transco International Finance B.V., in accordance with Title 9, Book 2 of the Dutch Civil Code;
- The British Transco International Finance B.V. directors' report for the year ended 31 March 2016 gives a true and fair view of the position of British Transco International Finance B.V. at the end of the reporting year and of the development and performance of the business during the reporting year, together with a description of the principal risks British Transco International Finance B.V. is subject to.

The Directors



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F.L. Beaney



TMF Netherlands B.V.

Amsterdam, 28 July 2016

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Balance Sheet for the year ended 31 March 2016 *(Before appropriation of results and expressed in EUR)*

| | Notes | 31 March 2016 | 31 March 2015 |
|--|-------|--------------------|--------------------|
| FINANCIAL FIXED ASSETS | | | |
| Revolving loan | 4 | 2,755,338 | 2,032,003 |
| Loans to shareholder | 5 | 817,828,367 | 798,801,859 |
| | | <u>820,583,705</u> | <u>800,833,862</u> |
| CURRENT ASSETS | | | |
| Interest receivable | | 14,128 | 9,881 |
| Accounts receivable from shareholder | 6 | 1,010,393 | 857,961 |
| | | <u>1,024,521</u> | <u>867,842</u> |
| Cash at banks | 7 | 144,421 | 297,062 |
| | | <u>1,168,942</u> | <u>1,164,904</u> |
| CURRENT LIABILITIES | | | |
| Corporation tax payable | | 90,011 | 82,350 |
| Accrued expenses | | 50,553 | 48,046 |
| | | <u>140,564</u> | <u>130,396</u> |
| NET CURRENT ASSETS | | | |
| | | <u>1,028,378</u> | <u>1,034,508</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>821,612,083</u> | <u>801,868,370</u> |
| Less: LONG-TERM DEBT | | | |
| Bearer bonds | 8 | 817,828,367 | 798,801,859 |
| | | <u>817,828,367</u> | <u>798,801,859</u> |
| | | 3,783,716 | 3,066,511 |
| CAPITAL AND RESERVES | | | |
| Issued share capital | 9 | 228,765 | 228,765 |
| Currency translation reserve | | 517,640 | (692,119) |
| Retained earnings | | 2,145,627 | 2,224,530 |
| Profit for the year | | 891,684 | 1,305,335 |
| | | 3,783,716 | 3,066,511 |

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Profit and Loss Account for the year ended 31 March 2016

(Expressed in EUR)

| | Notes | Year ended 31 March 2016 | Year ended 31 March 2015 |
|---|-------|--------------------------------|--------------------------------|
| FINANCIAL INCOME AND EXPENSES | | | |
| Interest income from loans to group company | 10 | 67,442,710 | 54,160,973 |
| Appreciation of zero coupon bearer bonds | 11 | (66,412,696) | (53,289,279) |
| Bank interest | | (41) | 0 |
| Other Interest | | 2,264 | (2,860) |
| Exchange differences | | 173,089 | 696,462 |
| | | <u>1,205,326</u> | <u>1,565,296</u> |
| OTHER EXPENSES | | | |
| General and administrative expenses | 12 | (96,490) | (68,889) |
| | | <u>(96,490)</u> | <u>(68,889)</u> |
| RESULT BEFORE TAXATION | | | |
| | | <u>1,108,836</u> | <u>1,496,407</u> |
| CORPORATION TAX | | | |
| | 13 | (217,152) | (191,072) |
| NET PROFIT FOR THE YEAR | | | |
| | | 891,684 | 1,305,335 |

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Cash flow statement for the year ended 31 March 2016

(expressed in EUR)

| | <u>Notes</u> | <u>Year ended 31 March 2016</u> | <u>Year ended 31 March 2015</u> |
|--|--------------|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Result for the year before taxation | | 1,108,836 | 1,496,407 |
| Exchange results added to currency translation reserve | | (174,479) | (692,119) |
| | | <u>934,357</u> | <u>804,288</u> |
| Movements in working capital | | | |
| Increase in accounts receivable from group companies | 6 | (152,432) | (144,258) |
| Increase in revolving loan | | (723,335) | (718,962) |
| Increase in interest receivable | | (4,247) | (8,474) |
| Decrease accrued expenses | | 2,507 | (5,732) |
| | | <u>(877,507)</u> | <u>(877,426)</u> |
| Income taxes paid | 13 | (209,491) | (182,153) |
| | | <u>(152,641)</u> | <u>(255,291)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net cash generated by investing activities | | <u>0</u> | <u>0</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net cash generated by financing activities | | <u>0</u> | <u>0</u> |
| NET INCREASE/(DECREASE) IN CASH | | | |
| | | <u>(152,641)</u> | <u>(255,291)</u> |
| Cash at banks beginning of the year | | 297,062 | 552,353 |
| Cash at banks end of the year | 7 | <u>144,421</u> | <u>297,062</u> |

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016 **(All tabular amounts are, unless otherwise stated, expressed in Euros)**

1. General

British Transco International Finance B.V. ("the Company") was established in Rotterdam on 18 January 1982. The statutory seat is Rotterdam. The address is Herikerbergweg 238, 1101 CM Amsterdam. The principal activity of the Company is to act as a finance company for National Grid Gas Plc., London, England, its sole shareholder and ultimate parent company, incorporated in England. As such, the Company has emitted a bond loan and all loan proceeds have been placed at the disposal of its parent company, which in turn has guaranteed repayment of the bond loan to the bond holders.

2. Summary of principal accounting policies

(a) General

The financial statements have been prepared in accordance with the statutory provisions of Title 9, book 2, of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual reporting in the Netherlands as issued by the Dutch Accounting Standards Board. As from March 31, 2014 the functional currency of the Company is the U.S. Dollar. For practical reasons the management board decided not to change the presentation currency accordingly and therefore presentation currency remained the Euro.

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

(b) Estimates

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

(c) Assets and liabilities

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

(d) Comparison with prior year

The valuation principles and method of determining the result are the same as those used in the previous year.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

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

(e) Loans to group companies and revolving loan

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

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

(f) Long term debt

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

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

(g) Cash and cash equivalents

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

Cash and cash equivalents are stated at nominal value.

(h) Accounts receivable /current liabilities/accruals

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

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

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

(i) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement.

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

(j) Foreign currencies

Transactions in foreign currencies are stated in the financial statements at the exchange rate of the functional currency on the transaction date. Monetary assets and liabilities in foreign currencies are converted to the closing rate of the functional currency on the balance sheet date. The translation differences resulting from settlement and conversion are credited or charged to the income statement.

Assets and liabilities are translated from the functional currency to the presentation currency at the rate of exchange prevailing at the balance sheet date; income and expenses are translated at the exchange rates on the transaction date. Any resulting exchange differences are taken directly to the legal reserve for translation differences within equity.

(k) Financial instruments

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

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

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

(l) Corporation tax

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

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

(m) Exchange differences

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

(n) Financial income and expenses

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

(o) General and administrative expenses and other expenses

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

(p) Cash flow statement

The cash flow statement is prepared according to the indirect method. Corporate income taxes, interest received and paid are stated under the cash flow from operating activities as a result of the nature of the Company's activities.

Dividends paid are recognised as cash used in financing activities.

(q) Related parties

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

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

3. Financial risk management

Disclosure of management of financial risks

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

Market risk

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

Interest and cash flow risks

Interest rate risks are limited as the only loan payable is a zero-coupon bond with a fixed interest rate.

Foreign currency risk

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

Credit risk

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

Liquidity risk

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

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

4. Revolving loan

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

With effect from 1 April 2014 the interest has been calculated on the basis of the number of days elapsed based on 360 days per year instead of 365 days per year. As per 1 April 2015 the accounts receivable balance of prior year (EUR 857,961) with the shareholder (see note 6) has been added to this revolving loan.

| | <u>2015/2016</u> | <u>2014/2015</u> |
|--------------------------------|------------------|------------------|
| Balance | 2,032,003 | 1,313,041 |
| Addition to loan | 857,961 | 713,703 |
| Repayment | (150,000) | 0 |
| Interest added to the loan | 15,374 | 5,259 |
| Balance at the end of the year | <u>2,755,338</u> | <u>2,032,003</u> |

5. Loans to shareholder

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

| Currency | Issue date | Maturity date | Interest rate | Amount USD | 2015/2016 | 2014/2015 |
|---------------------------------------|------------|---------------|---------------|-------------|--------------------|--------------------|
| | | | | | Amount EUR | Amount EUR |
| USD | 04-May-94 | 04-Nov-21 | 8.37863% | 931,468,200 | 817,828,367 | 798,801,859 |
| Total loans to group companies | | | | | <u>817,828,367</u> | <u>798,801,859</u> |

The fair value of the zero coupon loan to a group company carrying amount of EUR 817,828,367 amounted to EUR 1,100,446,434 at 31 March 2016 (31 March 2015: EUR 1,150,685,956). We calculate the fair value by reference to the fair value of the bearer bonds (see to note 8), as the loan is contracted on the same terms. The EUR/USD exchange rate is obtained from external sources for foreign exchange rates.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

5. Loans to shareholder (continued)

The following movements occurred:

| | <1 year | Loans to group companies | | Total |
|--|---------|--------------------------|-------------|-------------|
| | | between 1-5 years | > 5 years | |
| Book value 1 April 2014 | 0 | 0 | 573,937,600 | 573,937,600 |
| Interest accrued zero coupon | 0 | 0 | 53,289,279 | 53,289,279 |
| Difference from translation to presentation currency | 0 | 0 | 171,574,980 | 171,574,980 |
| Book value 31 March 2015 | 0 | 0 | 798,801,859 | 798,801,859 |

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

6. Accounts receivable from shareholder

This amount is due from National Grid Gas Plc. and bears no interest. All receivables fall due in less than one year. All amounts receivable are due upon demand and have therefore been classified as current.

The carrying value of the accounts receivable from shareholder approximates the fair value.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

7. Cash at banks

Cash at banks consists of current account balances in a total amount of EUR 144,421 (p.y. EUR 297,062), which are available on demand. There are no restrictions on the current accounts.

8. Bearer bonds

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

| Currency | Issue date | Maturity date | Interest rate | Amount USD | 2015/2016 | 2014/2015 |
|---------------------------|------------|---------------|---------------|-------------|--------------------|--------------------|
| | | | | | Amount EUR | Amount EUR |
| USD | 05-Nov-91 | 04-Nov-21 | 8.37863% | 931,468,200 | 817,828,367 | 798,801,859 |
| Total bearer bonds | | | | | 817,828,367 | 798,801,859 |

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

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

The fair value of the bonds with a carrying amount of EUR 817,828,367 amounted to EUR 1,100,446,434 at 31 March 2016 (31 March 2015: EUR 1,150,685,956). We calculate the fair value by on the basis of the market price of the bonds as per the balance sheet date and the notional amount. The EUR/USD exchange rate is obtained from external sources for foreign exchange rates.

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended at 31 March 2016

8. Bearer bonds (cont'd)

The following movements occurred:

| | Bonds | | | Total |
|--|----------|-------------------|--------------------|--------------------|
| | <1 year | between 1-5 years | > 5 year | |
| Book value 1 April 2014 | 0 | 0 | 573,937,600 | 573,937,600 |
| Interest accrued zero coupon | 0 | 0 | 53,289,279 | 53,289,279 |
| Difference from translation to presentation currency | 0 | 0 | 171,574,980 | 171,574,980 |
| Book value 31 March 2015 | <u>0</u> | <u>0</u> | <u>798,801,859</u> | <u>798,801,859</u> |

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

9. Capital and reserves

The authorised share capital of the Company consists of 2,500 ordinary shares of EUR 453 each amounting to EUR 1,132,500. As at 31 March 2016 505 shares were issued and fully paid up.

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

| | Issued share capital | Currency translation reserve | Retained earnings | Profit for the year | Total |
|-----------------------------|----------------------|------------------------------|-------------------|---------------------|------------------|
| Balance as at 1 April 2015 | 228,765 | (692,119) | 2,224,530 | 1,305,335 | 3,066,511 |
| Appropriation of result | 0 | 0 | 1,305,335 | (1,305,335) | 0 |
| Result current year | 0 | 0 | 0 | 891,684 | 891,684 |
| Reclassification | | 1,384,238 | (1,384,238) | | 0 |
| Addition/release | 0 | (174,479) | 0 | 0 | (174,479) |
| Balance as at 31 March 2016 | <u>228,765</u> | <u>517,640</u> | <u>2,145,627</u> | <u>891,684</u> | <u>3,783,716</u> |

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

10. Interest income on loans to group companies

| | 2015/2016 | 2014/2015 |
|---------------------------|-------------------|-------------------|
| Interest zero coupon bond | 66,412,696 | 53,289,279 |
| Interest revolving loan | 19,621 | 13,733 |
| Spread for the year | 1,010,393 | 857,961 |
| | <u>67,442,710</u> | <u>54,160,973</u> |

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

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

11. Appreciation of zero coupon bearer bonds

The total interest expense is equal to the total interest income minus the spread of EUR 1,010,393.

| | 2015/2016 | 2014/2015 |
|----------------------------------|-------------------|-------------------|
| Appreciation of zero coupon bond | <u>66,412,696</u> | <u>53,289,279</u> |

12. General and administrative expenses

| | 2015/2016 | 2014/2015 |
|---------------------------------|------------------|------------------|
| Accounting fees | 45,709 | 37,833 |
| Audit fees | 41,796 | 30,894 |
| Tax advisors fees | 5,883 | 2,974 |
| Other general (income)/expenses | 3,102 | (2,812) |
| | <u>96,490</u> | <u>68,889</u> |

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

13. Corporation tax

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

| | <u>2015/2016</u> | <u>2014/2015</u> |
|---------------------------------|------------------|------------------|
| Result before income tax | 1,108,836 | 1,496,407 |
| Correction for exchange results | <u>(174,479)</u> | <u>(692,119)</u> |
| | 934,357 | 804,288 |
| Income tax expenses | <u>217,152</u> | <u>191,072</u> |
| effective tax rate | 23.2% | 23.8% |
| applicable tax rate < 200,000 | 20% | 20% |
| applicable tax rate > 200,000 | 25% | 25% |

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

14. Directors' remuneration

The Directors received an amount of EUR 0 in respect of their services during the year (year 2015/2016: EUR 0)

15. Staff number and employment costs

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

16. Related parties

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

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Notes to the financial statements for the year ended 31 March 2016

17. Independent auditor's remuneration

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

| | <u>2015/2016</u> | <u>2014/2015</u> |
|-------------------------------|------------------|------------------|
| Audit of financial statements | 41,796 | 30,894 |
| Other audit procedures | 0 | 0 |
| Tax services | 0 | 0 |
| Other non-audit services | 0 | 0 |
| | <u>41,796</u> | <u>30,894</u> |

18. Commitments and contingencies not included in the balance sheet

There are no commitments and contingencies per 31 March 2016. No pledges are applicable. The bonds and all other liabilities of the Company are guaranteed by National Grid Gas Plc.

On 4 February 2014 the Company entered into an uncommitted EUR 6,000,000 revolving loan agreement with its shareholder to which a variation agreement has been drawn up to change the day basis used for the calculation of interest effective from 1 April 2014.

The Company retains a minimum equity at risk of EUR 2,000,000.

The Directors



Digitally signed by
Fiona Peel
Date: 2016.07.28
15:34:46 +01'00'

F.L. Beaney



TMF Netherlands B.V.

Amsterdam, *28 July* 2016

BRITISH TRANSCO INTERNATIONAL FINANCE B.V.

Supplementary Information

Retained earnings

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

Proposed appropriation of results

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

Post-balance sheet events

No major post-balance sheet events have occurred since 1 April 2016 that would make the present financial position substantially different from that shown in the balance sheet at year-end.

Independent auditor's report

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