Additional information

Contents

The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986
British Gas (BG) privatisation

1990
Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation

1995
National Grid listed on the London Stock Exchange

1997
Centrica demerged from BG

Energis demerged from National Grid

2000
Lattice Group demerged from BG and listed separately

New England Electric System and Eastern Utilities Associates acquired

2002
Niagara Mohawk Power Corporation merged with National Grid in US

National Grid and Lattice Group merged to form National Grid Transco

2004
UK wireless infrastructure network acquired from Crown Castle International Corp

2005
Four UK regional gas distribution networks sold and National Grid adopted as our name

2006
Rhode Island gas distribution network acquired

2007
UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

2008
Ravenswood generation station sold

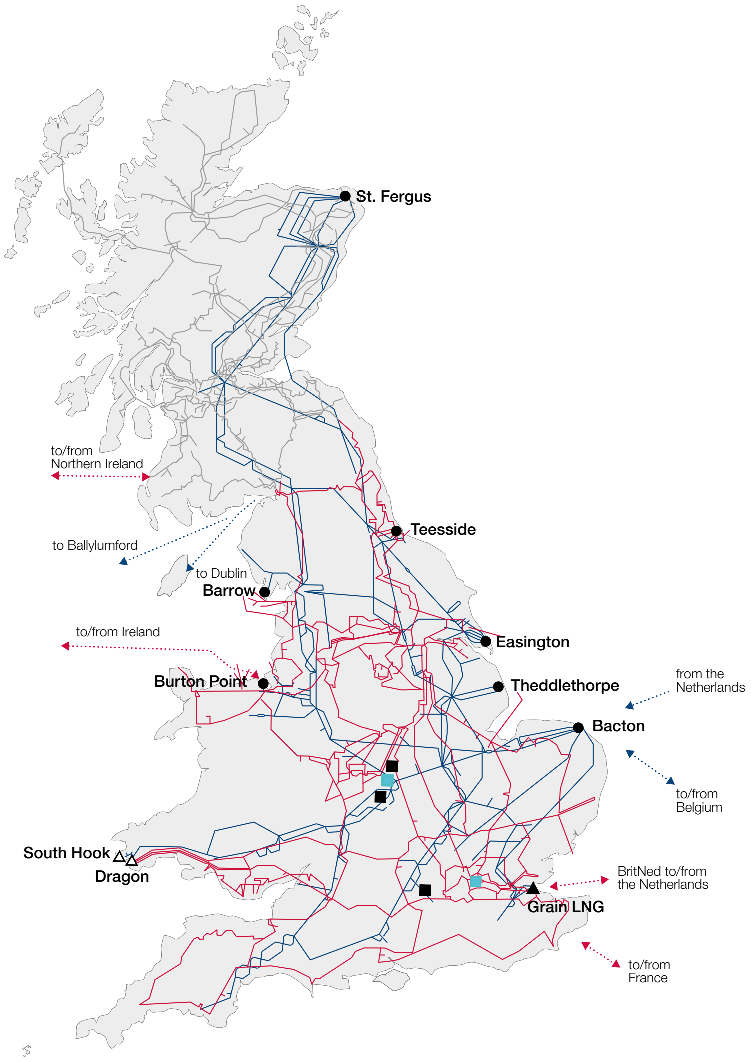
2010
Rights issue raised £3.2 billion

2012
New Hampshire electricity and gas distribution businesses sold

2016
National Grid separated the UK Gas Distribution business

2017
National Grid sold a 61% equity interest in its UK Gas Distribution business

Where we operate
Our UK network



UK Transmission[1]

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 7,200 kilometres (4,474 miles) of overhead line, 1,560 kilometres (969 miles) of underground cable and 346 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high-pressure pipe and 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

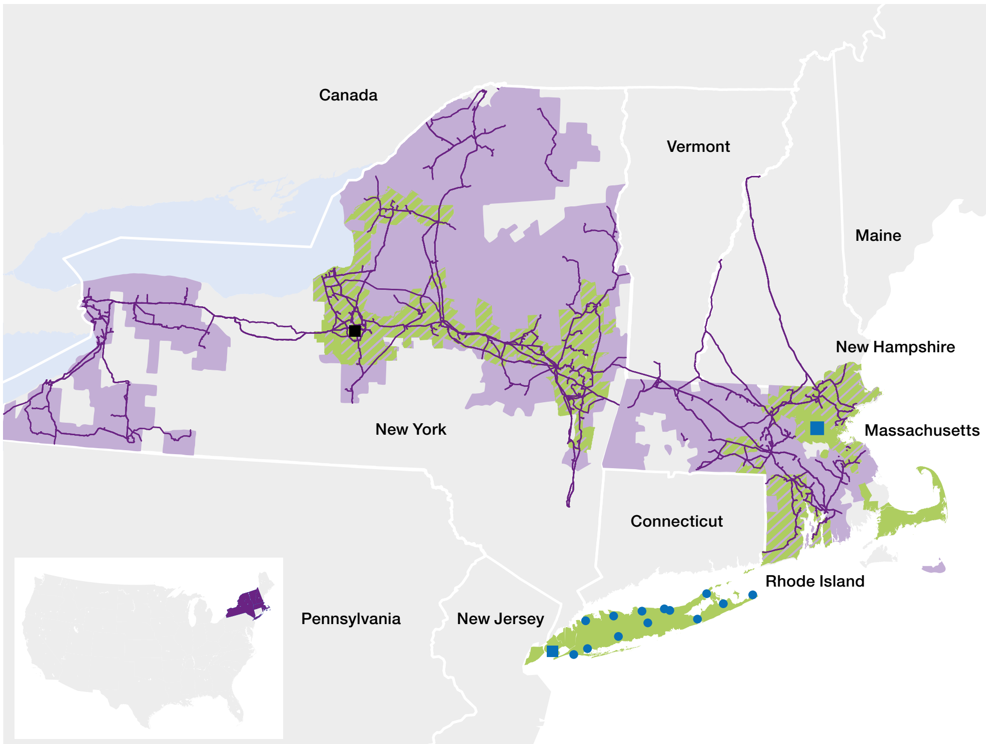
- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

Principal offices

- Owned office space: Warwick and Wokingham
- Leased office space: Solihull and London

Leased office space totalling 9,022 square metres (97,114 square feet) with remaining terms of 5 to 8 years.

Our US network



US Regulated[1]

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,293 kilometres (8,881 miles) of overhead line, 168 kilometres (104 miles) of underground cable and 387 transmission substations.

An electricity distribution network of approximately 117,082 circuit kilometres (72,751 miles) and 740 distribution substations in New England and upstate New York.

A network of approximately 57,001 kilometres (35,419 miles) of gas pipeline serving an area of approximately 25,659 square kilometres (9,907 square miles). Our network also consists of approximately 787 kilometres (489 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 58,993 square metres (635,000 square feet) with remaining terms of 7 to 11 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

[1] Access to electricity and gas transmission assets on property owned by others is controlled through various agreements.

UK Regulation

Our licences to participate in transmission and interconnection activities are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers, including the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has a statutory duty under the Acts to protect the interests of consumers. As part of our licences, Ofgem established price controls that limit the amount of revenue our regulated businesses can earn. This gives us a specified level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investments.

The price controls include a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:
- efficiently deliver by investment and maintenance the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

The main price controls for electricity and gas transmission networks came into effect on 1 April 2013 for the eight-year period until 31 March 2021. They follow the RIIO (revenue = incentives + innovation + outputs) framework established by Ofgem.

Following the sale of a majority interest in the National Grid UK Gas Distribution business (now known as Cadent) on 31 March 2017, Cadent now has responsibility for operating within the price controls relating to its four gas distribution networks.

Our UK Electricity Transmission (UK ET) and UK Gas Transmission (UK GT) businesses operate under four separate price controls. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as System Operator (SO); and two for our UK GT operations, again one as TO and one as SO. In addition to the four regulated network price controls, there is also a tariff cap price control applied to certain elements of domestic sized metering activities carried out by National Grid Metering.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. Under European legislation, these capacity sales are classified as congestion revenues because the market price differences result from congestion on the established interconnector capacity which limits full price convergence. European legislation governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions. Under UK legislation, interconnection businesses must be separate from transmission businesses.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention, ranging from fully merchant (the project is fully reliant on sales of interconnector capacity) to cap and floor (where sales revenues above the cap are returned to transmission system users and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk).

The cap and floor regime is now the regulated route for interconnector investment in GB and may be sought by project developers who do not qualify or do not wish to apply for exemptions from European legislation which would facilitate a merchant development.

RIIO price controls

The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are five output categories for transmission:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives – specifically, facilitating the reduction of carbon emissions – as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is broadly the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

A number of assumptions are necessary in setting allowances for these outputs, including the volumes of work that will be needed and the price of the various external inputs to achieve them. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual input prices or work volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

The extended length of the price control to eight years is one of the ways that RIIO has given innovation more prominence. Innovation refers to all the new ways of working that deliver outputs more efficiently. This broad challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs is split between RIIO fast and slow money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our RAV – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance. Regulatory depreciation in electricity and gas transmission permits recovery of RAV consistent with each addition bringing equal real benefit to consumers for a period of up to 45 years. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, performance against our customer and stakeholder satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Many of our incentives affect our revenues two years after the year of performance.

During the eight-year period of the price control our regulator included a provision for a mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

The mid-period review of the electricity and gas transmission controls focused on three specific areas, as follows:

1) a revised need for certain electricity transmission asset renewal outputs with associated reduction of allowances of £38.1 million (in 2009/2010 prices);
2) a removal of the need for the Avonmouth pipeline and associated reduction in allowances of £168.8 million (in 2009/2010 prices); and
3) a need for extra Electricity System Operator activities to meet the demands of consumers and network users with an associated increase in allowances of £21.5 million (in 2009/2010 prices).

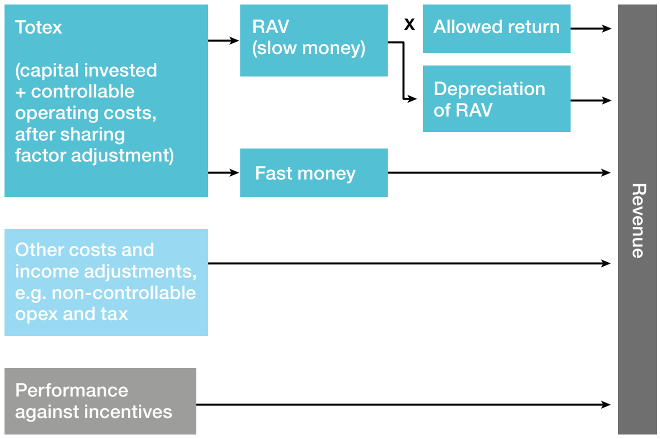
Ofgem also separately reviewed the obligation to provide additional gas entry capacity at Fleetwood. It concluded that this additional capacity was not required, so no incremental revenues would be payable. National Grid had incurred no incremental costs in anticipation of this obligation.

Further to the mid-period review, National Grid volunteered that £480 million (in 2009/2010 prices) of allowances for electricity transmission investments should be deferred and in August 2017 Ofgem determined how the RIIO allowances would be correspondingly adjusted.

Competition in onshore transmission

Ofgem stated in its final decision on the RIIO control for electricity transmission that it would consider holding a competition to appoint the constructor and owner of suitably large and separable new transmission projects, rather than including these new outputs and allowances in existing transmission licensee price controls. On 23 January 2018, Ofgem proposed that, in the absence of required legislation to support a competition, it would set allowances for National Grid to undertake the transmission works associated with connecting the Hinkley Point C power station but with reduced allowances reflecting prices it has observed in other competitions. The consultation closed on 20 March 2018 and said that Ofgem expected to make a decision on this treatment in the spring of 2018.

Simplified illustration of RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under our current RIIO price controls is as follows:

	Transmission	
	Gas	Electricity
Cost of equity (post-tax real)	6.8%	7.0%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (2.22% for 2017/18)	
Notional gearing	62.5%	60.0%
Vanilla WACC[1]	3.94%	4.13%

1. Vanilla WACC = cost of debt x gearing + cost of equity x (1-gearing).

The sharing factor means that any over- and under-spend is shared between the businesses and customers. The shared figures displayed in the table below are the sharing factors that apply to UK ET and UK GT.

Sharing factors under our current RIIO price controls are as follows:

	Gas Transmission		Electricity Transmission	
	Transmission Operator	System Operator	Transmission Operator	System Operator
Fast[1]	Baseline[3] 35.6% Uncertainty 10%	62.60%	15.00%	72.10%
Slow[2]	Baseline[3] 64.4% Uncertainty 90%	37.40%	85.00%	27.90%
Sharing	44.36%		46.89%	

1. Fast money allows network companies to recover a percentage of totex within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future consumers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure where the level of outputs delivered differ from the baseline level, or if triggered by an event.

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

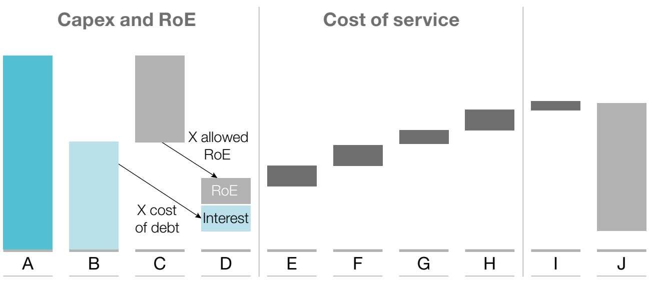
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12-month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecast capital investments and operating costs.

US regulatory revenue requirement



A Rate base
B Debt
C Equity
D Return
E Controllable costs
F Non-controllable costs
G Depreciation
H Taxes
I Lagged recoveries
J Allowed revenue

Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving the allowed RoE. These factors include financial market conditions, regulatory lag, and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, which means they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The Company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers, as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15-year and 25-year power supply agreements, and within wholesale tariffs approved by FERC. Through the use of cost based formula rates, these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service, with the ability to earn a fair and reasonable rate of return, while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups, and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 191.

Below, we summarise significant developments in rate filings and the regulatory environment during the year. Following the final stabilisation upgrade to our new financial systems and the availability of 12 months of historical test year data from those financial systems, we concluded a first round of full rate case filings in fiscal year 2017, with a final rate case decision for Massachusetts Electric in September 2016, and followed by approval of three-year rate plans for KEDNY and KEDLI in December 2016. In fiscal year 2017/18, we made a second round of full rate case filings with Niagara Mohawk (electric and gas) in April 2017, Boston Gas and Colonial Gas in November 2017, and Narragansett Electric also in November 2017. A Joint Proposal, setting forth a three-year rate plan for Niagara Mohawk was approved by the New York State Public Service Commission (NYPSC) in March 2018. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in the Company's US distribution activities.

Impact of US Tax Reform

Tax is a pass through for utilities in the US. The reduction in the corporation tax rate from 35% to 21% will therefore be significantly beneficial to customers as the lower tax rate will be reflected in collection of a lower tax allowance from customers.

Our upstate New York, Massachusetts Gas and Rhode Island utilities were all undergoing rate negotiations at the time the legislation was enacted. We have updated our revenue requests for the prospective portion of the tax collection in each of these businesses. These companies represent 48% of the rate base with a total revenue impact of approximately $130 million. Our FERC businesses operate under formula rates, and we expect an approximately $50 million reduction in the year related to these companies, with the full impact being felt in 2018/19.

There are open generic proceedings in New York and Massachusetts currently underway that will address the treatment of any tax savings for our Massachusetts Electric, KEDNY and KEDLI customers until base rates are reset through rate case filings. We are working with the regulators to develop case by case solutions for these Operating Companies. Solutions could include refunds in full prospectively of the tax savings starting as early as this fall, retention of all or a portion of the savings to address rate stability concerns, and use of funds to net against current regulatory assets. We expect the New York and Massachusetts Commission decisions by late summer or early fall this year. The lower collections in revenue offset the lower tax charge, so there is no material impact to earnings under IFRS or under US GAAP. Our cash flows will reduce as we are currently in a net operating loss position for the purposes of calculating taxable profits in our US Group. This means that there is no offsetting reduction in cash tax payments.

Massachusetts

Boston and Colonial rate cases

The Company filed a rate case for Boston Gas and Colonial Gas with MADPU on 15 November 2017 with new rates to be effective on 1 October 2018. The Massachusetts gas rate case, the first rate case for Boston Gas and Colonial Gas since 2010, updates the gas companies' rates to more closely align revenues with the cost of service and bring their earned RoEs closer to the allowed RoE. The Company's filing was made prior to the passage of the Tax Cuts and Jobs Act of 2017 (Tax Reform), which lowered the US corporate income tax rate from 35% to 21%. The Company's proposed revenue increase prior to the Tax Reform was $178 million for Boston Gas and $36 million for Colonial Gas. The change in the corporate income tax rate will reduce these amounts by approximately $29 million and $7 million for Boston Gas and Colonial Gas, respectively. In addition, significant tax liabilities to National Grid's US Treasury organisation that have been recorded at the 35% tax rate will now be paid at the lower 21% tax rate creating a significant benefit that will be returned to customers. The Company will be proposing to return this benefit to customers over a similar time period that the actual benefits are to be earned, however this time period and resulting additional rate reductions will not be determined until late spring or early summer 2018.

Gas system enhancement programmes (GSEP)

On the gas side, on 5 May 2017, MADPU approved our recovery of approximately $50.6 million, related to $241 million of anticipated investments in 2017 under an accelerated pipe replacement program, through rates effective from May 2016 to April 2018. However, due to the application of the GSEP revenue cap, we are required to defer recovery of an additional $5.5 million of the 2017 revenue requirement, until we have room under the GSEP revenue cap to recover the deferred amount, or in the next rate case that covers the period of investment.

Grid modernisation and smart energy solutions

In response to a 2014 regulatory requirement, we filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options. These options would further MADPU's goals of reducing the effect of outages, optimising demand, integrating distributed resources, and improving workforce and asset management. We presented a range of investment options for MADPU to consider, with investment levels over five years ranging from $238.6 million to $792.9 million. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate capital recovery mechanism. MADPU initiated its review of our plan in April 2016 and hearings were held in May 2017. An order from MADPU approving some of the proposed investment was received on 10 May 2018. We have also been operating a Smart Energy Solutions pilot with approximately 15,000 customers in Worcester, Massachusetts, since 1 January 2015. The pilot has allowed the Company to deploy, test and learn from technologies similar to those proposed in the grid modernisation plan, including smart meters, demand response, an integrated communication system, and advanced distribution automation. The pilot was scheduled to end on 31 December 2016, but we have received approval to continue operating the pilot until 31 December 2018.

New York

Upstate New York 2017 rate cases

On 28 April 2017, the Company filed a one-year rate plan (but submitted two additional years of data to facilitate a multi-year settlement) for our upstate New York electricity and gas businesses.

On 19 January 2018, we filed a joint proposal setting out a comprehensive three-year rate plan (fiscal years 2019-2021) for our electric and gas businesses. The rate plan includes: a 9.0% RoE and 48% equity ratio; cumulative combined electric and gas revenue increases of $206 million, $242 million, and $302 million in fiscal year 2019, 2020 and 2021 respectively; funding for a three-year capital plan of approximately $2.4 billion; annual reconciliation mechanisms for certain non-controllable costs (e.g. property taxes, pension/OPEBs, and site investigation remediation costs); a gas safety and reliability surcharge to recover the costs of incremental leak-prone pipe replacement and leak repairs; and a number of incentive mechanisms, including earning adjustment mechanisms (EAMs), which provide a potential incentive of approximately $20 million annually. The revenue increases reflect an estimate of the impact of changes to the federal corporate tax rate and bonus depreciation that is subject to true-up at the end of fiscal year 2019. The New York State Public Service Commission (NYPSC) approved the terms of the joint proposal in March 2018.

Reforming the Energy Vision (REV)

In April 2014, NYPSC instituted the REV proceeding, which envisions a new role for utilities as distributed system platform (DSP) providers who create markets for distributed energy resources (DER) and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability and resiliency; and cleaner, more diverse electricity generation.

NYPSC issued an order on 19 May 2016 addressing rate-making and utility revenue model policy framework issues under REV, including: rate-making reform; earnings opportunities (platform service revenues and earning adjustment mechanisms or EAMs); competitive market-based earnings; customer data access; non-wires alternative solutions to displace traditional capital investment; standby service tariff enhancements; opt-in rate design (time-of-use rates, smart home rate pilots); enhancements to large customer demand charges; scorecard metrics; and mass market rate design. The Company's initial Distributed System Implementation Plan (DSIP) was filed with NYPSC on 30 June 2016 and identified incremental investments in utility infrastructure necessary for developing DSP capabilities, market enablement and operations, advanced metering functionality, grid modernisation, and cyber security and privacy measures within the first five years. The DSIP is required to be updated and filed with NYPSC every two years, with the next update to be filed by 30 June 2018. The joint proposal approved by the NYPSC in March 2018 includes investments related to grid modernisation, cyber security, and new electricity and gas products and services. It also sets out a process to progress advanced metering infrastructure (AMI) in Upstate New York. The joint proposal also includes outcome-based EAMs to target energy and system efficiency, carbon reductions, and customer engagement.

Clean Energy Standard (CES)

NYPSC issued an order on 1 August 2016 adopting a CES, consistent with the State Energy Plan, that 50% of New York's electricity is to be generated by renewable sources by 2030 as part of a strategy to reduce greenhouse gas emissions by 40% by 2030. In particular, the CES established: obligations on load serving entities (LSEs) to financially support new renewable generation resources that serve their retail customers through Renewable Energy Credits (RECs); and to financially support existing at-risk nuclear generators through the purchase of zero emissions credits (ZECs). The first REC and ZEC compliance years under the CES began 1 January 2017 and 1 April 2017, respectively. On 16 March 2018, the NYPSC approved the New York State Energy Research and Development Authority's (NYSERDA) 2018 compliance period programme budgets and authorised reallocation of previously approved, but unspent, funds from the 2017 compliance period and the further reallocation of funds from uncommitted System Benefits Charge, Energy Efficiency Portfolio Standard, and/or Renewable Portfolio Standard funds to pay for 2018 CES administrative costs with all unspent compliance funds to be reallocated rather than returned to LSEs during the annual reconciliation process as proposed by NYSERDA. As a result of this reallocation, there is no need to collect additional funds for the 2018 compliance period.

Rhode Island

Rhode Island electric and gas infrastructure, safety and reliability (ISR) plans

State law provides our Rhode Island electric and gas operating divisions with rate mechanisms that allow us to recover capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual electric and gas ISR plans.

RIPUC approved the fiscal year 2019 gas and electric ISR plans on 7 March 2018 and 20 March 2018, respectively. The electric ISR plan encompasses a $106.86 million spending programme for capital investment and $10.9 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses $106.7 million for capital investment and incremental operation and maintenance expense.

Rhode Island combined gas and electric rate case

On 27 November 2017, we filed a rate plan for our Rhode Island electric distribution and gas businesses to take effect from 1 September 2018. The rate case provides an opportunity to recalibrate base rates to reflect changes in costs since the last rate case, which was effective in February 2013. Rhode Island regulation also allows for proforma and normalising adjustments to test year data that include forecasts for costs expected in a future rate year.

Our rate plan included forecast data for the two twelve-month periods ending 31 August 2020 and 2021 for informational purposes, providing the RIPUC with an option for a multi-year rate plan. The rate plan was filed prior to the passage of the Tax Cuts and Jobs Act of 2017 (Tax Act), which lowered the federal income tax rate from 35% to 21%. The revenue request prior to the Tax Act was increases of $41.3 million for electric and $30.3 million for gas. The change in the corporate income tax rate on revenues to be collected during the rate year will reduce these amounts by approximately $9.7 million and $9.6 million for electric and gas, respectively.

In addition, significant tax liabilities to the US Treasury that have been recorded at the 35% tax rate will now be paid at the lower 21% tax rate, creating a significant benefit that will be returned to customers. We will be proposing to return this benefit to customers over a similar period that the actual benefits are to be earned. However, this period and resulting additional rate reductions will not be determined until late spring or early summer. The filing includes increases for IT investment and other cost increases, as well as staffing level increases of 68 and 71 electric and gas employees to meet our work plans over the next three years. The electric request includes funding for projects and programmes to support the Rhode Island Power Sector Transformation Initiative, including investments in advanced metering, grid modernisation, electric vehicle infrastructure, and a solar and storage demonstration project. The gas request includes funding to modernise the IT infrastructure that supports our core gas distribution operating capabilities. The filing is based on an RoE of 10.1% and a capital structure of 51% equity and 49% debt.

Power Sector Transformation Initiative

In December 2016, the National Governors Association selected Rhode Island as one of four states to participate in a 16-month collaborative effort with state agencies and key stakeholders, including the Company, to develop a state action plan for modernising the electric power sector and integrating clean energy. This effort, referred to as the Power Sector Transformation Initiative, builds off of the SIRI collaborative effort that began in 2014 and resulted in a vision document released in January 2016. Following months of stakeholder meetings, the Phase One Report was delivered to Governor Raimondo in November 2017 with recommendations to modernise the utility business model, deploy advance meters to build a connected distribution grid, leverage distribution system information to increase system efficiency, and advance electrification beneficial to system efficiency and greenhouse gas emissions.

FERC

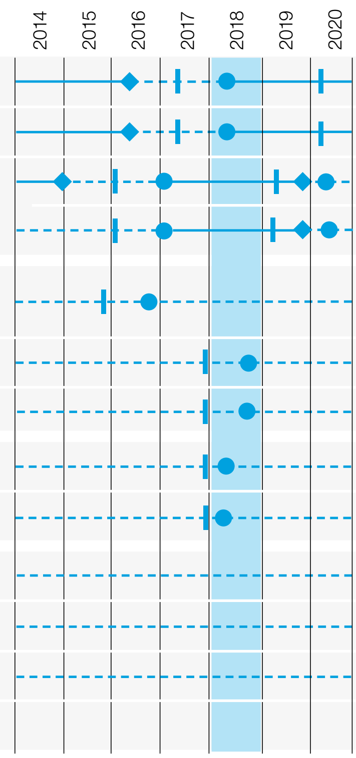
Complaints on New England transmission allowed RoE

In September 2011, December 2012, July 2014, and April 2016, a series of four complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE, which FERC had authorised at 11.14% prior to the first complaint. FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base RoE to 10.57%. A number of parties, including the Company, appealed FERC's order on the first complaint to US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC, requiring FERC to reconsider the methodology it adopted in its order. It is too early to determine when or how FERC will decide the four pending RoE complaints against the Company in light of the court's decision.

Formula Rate 206 Proceeding

On 28 December 2015, FERC initiated a proceeding under Section 206 of the Federal Power Act. The Commission found that ISO-New England Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The Commission found that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ('NETOs'). In addition, the Commission found that the ISO-NE PTOs' current RNS ('Regional Network Service') and LNS ('Local Network Service') formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. The Commission explained that the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. Accordingly, the Commission established hearing and settlement judge procedures. Several parties are active in the proceeding including FERC staff, various consumer interested consumer parties, NESCOE ('New England States Committee on Electricity'), and several municipal light departments. The parties have negotiated a set of formula rate protocols and are currently engaged in settlement negotiations and have conducted several settlement conferences at FERC relative to RNS and LNS rates.

Summary of US price controls and rate plans



Regulator	Company	Rate base (31 Mar 2018)	Equity-to-debt ratio	Allowed return on equity	Achieved return on equity (31 Mar 2018)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-up§	Pension/OPEB true-up◊
New York Public Service Commission	Niagara Mohawk[1] (upstate, electricity)	$4,980m	48:52	9.0%	8.8%	✓	P	P	✓
	Niagara Mohawk (upstate, gas)	$1,163m	48:52	9.0%	7.9%	✓	P	P	✓
	KEDNY (downstate)[2]	$3,004m	48:52	9.0%	9.0%	P	P	P	✓
	KEDLI (downstate)[3]	$2,346m	48:52	9.0%	10.1%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/Nantucket Electric	$2,448m	50:50	9.9%	9.0%	✓	P	✓	✓
	Boston Gas	$2,024m	50:50	9.75%	7.1%	✓	P	✓	✓
	Colonial Gas	$455m	50:50	9.75%	4.7%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	$737m	49:51	9.5%	5.6%	✓	✓	P	✓
	Narragansett Gas	$742m	49:51	9.5%	8.4%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett	$718m	50:50	10.57%	11.5%	n/a	✓	n/a	✓
	Canadian Interconnector	$30m	100:0	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power	$1,661m	66:34	10.57%	11.0%	n/a	✓	n/a	✓
	Long Island Generation	$408m	47:53	9.9%	13.5%	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).

Rate filing made
New rates effective
Rate plan ends
Rates continue indefinitely
Multi-year rate plan

✓ Feature in place
P Feature partially in place

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Task force on Climate-related Financial Disclosures

In June 2017, the Financial Stability Board released its final report on the recommendations of the Task force on Climate-related Financial Disclosures (TCFD). The voluntary framework for disclosure of climate-related information in financial filings is structured around four themes: governance, strategy, risk management, and metrics and targets. There are eleven specific recommended disclosures across these areas that are applicable to companies in all sectors, and further supplemental guidance for energy utilities in particular, relating to strategy, and metrics and targets.

Below we include our first disclosures in response, across the four themes. We have embarked on a longer term process to determine how we most clearly articulate our assessment of financial impacts of climate change and climate-related scenarios, including a 2°C scenario. This is a scenario that limits the global average temperature increase to 2°C above the pre-industrial average, against the specific recommendations.

TCFD Recommendations

1. Governance

Our stakeholders fully expect National Grid to operate sustainably. We are also committed to minimising our environmental impact, both now and in the longer term. We constantly balance this with the need to provide secure and affordable energy for our customers and consumers both, and to help society to decarbonise its energy requirements.

Our principal businesses build and invest for the long term. Ensuring that we develop networks that are robust to withstand extreme weather events is a critical part of our investment strategy. Our customers and our regulators expect this to be the case.

Responsibility for asset investment and maintenance planning is delegated under the Group's Delegation of Authority statement to the businesses.

For the Group as a whole, the Safety, Environmental and Health Committee (SEH Committee) operates as a sub-committee of the Board. Under its terms of reference, it is responsible for assessing how the Company adapts its business in light of climate change, which includes:

i) At least twice a year, consideration of reports on the Company's environmental performance, including carbon emissions; and
ii) At least once a year, a review of the Company's environmental strategy. The SEH Committee does not have a remit to consider the financial implications of climate change on the Company.

In terms of applying TCFD to the Company, in 2017/18, summary papers setting out the implications of the recommendations on the Company were presented to the Audit Committee in September 2017 and March 2018. Management is currently formally evaluating the governance processes and the role and responsibilities of the Audit and SEH Committees in this area.

2. Strategy

The sustainability and climate change landscape is fundamentally changing our industry and the way we operate. As part of our regular portfolio evaluation activity, we consider the attractiveness of each of our key businesses under a range of future environmental scenarios.

The Principal Operations section of the Annual Report on pages 28-33 include examples of opportunities and plans to respond to the risk of climate change, such as the move towards low carbon and the deployment of the charging infrastructure for electric vehicles.

Our updated global environmental sustainability strategy (Our Contribution) was launched in June 2017 and is available on our website. It sets out our ambition to transform the way we do business and provide a sustainable legacy from our operations.

The strategy sets out our targets to reduce greenhouse gas emissions by 45% by 2020, 70% by 2030 and 80% by 2050. We have been awarded a position on the Climate A List by CDP in recognition of our work to mitigate climate change, an accolade given to the top 5% of companies worldwide. Further details about Our Contribution are set out on page 35.

Transition risks and opportunities are similar for both the UK and the north-eastern United States as both regions have set targets to reduce greenhouse gas emissions economy-wide 80% by 2050. In the UK our regulated business has incentives related to carbon emission reductions. There are technical and commercial risks and opportunities arising from the increased connection of low carbon generation to our networks, and from the delivery of infrastructure to deliver low carbon energy.

Our long-term investment plans are determined with reference to forecasts consistent with the outputs from our Future Energy Scenarios publication (available on our website), which provide credible pathways for the future of energy supply in Great Britain out to 2050.

The scenarios are used as a basis for a range of further National Grid activities, and are the starting point for our regulated long-term investment. They are also a reference point for other National Grid reports, such as the Gas Ten Year Statement, the Electricity Ten Year Statement, and the System Operability Framework. Reports concerning our UK operations under the 2008 Climate Change Act were released in 2010 and updated in 2016.

In the US, our long-term investment decisions are informed by internal views on the impact of changing environmental conditions. In addition to our views on changing environmental conditions, we also consider the range of possible regulatory and policy responses. Our regulators in New York are encouraging new incentive opportunities as part of their Reforming the Energy Vision (REV) proceedings and prepared an Electric and Gas Grid Resiliency Plan in 2016.

The existence of significant transition opportunities is one of the primary reasons why we established National Grid Ventures. Our partnership with Sunrun in 2017 serves as an example of an opportunity of which we have taken advantage to respond to these opportunities.

3. Risk management

Our approach to identifying and managing the risks in our business is set out on page 18, with our principal risks set out on page 19.

The most significant climate-related exposure we face in the short term is in relation to winter storms in the US, see page 31 for more information on our storm response.

In the long term, the risk of flooding is of primary concern and we have learned a great deal over the last 10 years as flooding events have become more frequent and intense.

In addition, and as described further on pages 193-196 in our disclosures around risk factors, we are increasingly subject to regulation in relation to climate change and there are requirements for us to reduce our own carbon emissions, as well as enabling reduction in energy use by our customers.

4. Metrics and targets

We have included a number of relevant metrics from Our Contribution in the Responsible Business section (see page 35).

We include disclosure of our Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions on page 16.

The Company continues to evaluate the most appropriate metrics and targets to benchmark, measure and report, in order to facilitate compliance with the TCFD recommendations. We are speaking to our peers, investors, credit rating agencies and advisors in these areas and will take their feedback into consideration as we further develop our metrics as well as subsequent discussions.

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 2018. 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's 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 2018.

Deloitte LLP, which has audited our consolidated financial statements for the year ended 31 March 2018, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 92.

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 18-21. 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, including where we do not adequately forecast and respond to disruptions in energy supplies, 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, regulation and political and economic uncertainty

Changes in law or regulation or decisions by governmental bodies or regulators and increased political and economic uncertainty 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. We may fail to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty.

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:
- 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
- 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, the impact of US tax reform, 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.

For further information see pages 186-191, 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.

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 or innovation (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.

Exchange rates, interest rates and commodity price indices

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.

Post-retirement benefits

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 commercially acceptable 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, including a limit requiring 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 financial control weaknesses 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, 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 194.

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 44.

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 63-79).

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

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

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

Rights, preferences and restrictions

(i) Dividend rights

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

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

(ii) Voting rights

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

(iii) Liquidation rights

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

(iv) Restrictions

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

Variation of rights

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

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

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

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

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

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

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

For the period 17 May 2017 to 16 May 2018, the Company received a total of $3,193,221.42 in reimbursements from the Depositary consisting of $1,232,993.66, $1,319,388.99 and $640,838.77 received in September 2017, December 2017 and January 2018 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 223.

Description of securities other than equity securities: depositary fees and charges
The Bank of New York Mellon, as the Depositary, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:
- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

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

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

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2017/18 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

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

Events after the reporting period
As set out in note 15 and note 35 of the financial statements on page 132 and 177 respectively, on 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. Refer to notes 4 and 15 for details on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.

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 pages 200-202 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Exchange rates

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

	Dollar equivalent of £1 sterling	
	High	Low
April 2018	1.43	1.38
March 2018	1.42	1.37
February 2018	1.42	1.39
January 2018	1.42	1.35
December 2017	1.35	1.33
November 2017	1.35	1.31

	Average[1]
2017/18	1.33
2016/17	1.31
2015/16	1.51
2014/15	1.61
2013/14	1.60

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 96.

Material interests in shares

As at 31 March 2018, 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]
BlackRock, Inc.	226,370,780	6.47
The Capital Group Companies, Inc.	145,094,617	3.88
Competrol International Investments Limited	125,733,926	3.72

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

As at 16 May 2018, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 197. 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 16 May 2018, the share capital of the Company consists of ordinary shares of 12 204/473 pence nominal value each and ADSs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2017 AGM to purchase up to 10% of the Company's share capital (being 344,116,240 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2018 AGM.

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.

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.

At the 2017 General Meeting and Annual General Meeting the Company sought authority to purchase shares to return part of the proceeds from the sale of a majority interest in the Company's UK Gas Distribution business, at approximately £835 million, to shareholders by way of on-market purchases of the Company's ordinary shares. This has now been completed. During the year the Company also 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
Shares held in Treasury purchased in prior years[1]	193,119,878	£22,006,683.75[1]	4.90%[1]
Shares purchased and held in Treasury during the year[4,5]	113,871,660	£14,155,715.87[2]	3.13%[3]
Shares transferred from Treasury during the year (to employees under employee share plans)	8,282,409	£1,029,610.25[2]	0.23%[3]
Maximum number of shares held in Treasury during the year	282,960,111	£35,175,590.97[2]	7.78%[3]

1. As at 31 March 2017 (Nominal value: 11 17/43 p; Called up share capital: 3,942,983,447) prior to share consolidation effective on 22 May 2017.
2. Nominal value: 12 204/473p.
3. Called up share capital of 3,637,747,827 ordinary shares as at the date of this report.
4. From 02 June 2017 to 26 March 2018.
5. Shares purchased for a total cost of £1,016,862,703.

	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	–	–	–	–
May	–	–	–	–
June[1]	7,793,766	10.054	7,793,766	–
July[1]	11,609,079	9.377	11,609,079	–
August[1]	9,331,917	9.558	9,331,917	–
September[1]	15,295,727	9.470	15,295,727	–
October[1,2]	7,858,778	9.228	7,858,778	–
November[1,2]	11,089,402	8.893	11,089,402	–
December[1,2]	9,605,998	8.721	9,605,998	–
January[2]	17,940,649	8.519	17,940,649	–
February[2,3]	10,213,586	7.477	10,213,586	–
March[2,3]	13,132,758	7.622	13,132,758	–
Total	113,871,660	8.830	113,871,660	–

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 2 June 2017 and Expired: 27 December 2017 (Authority for no. shares: 343,910,318 ordinary shares up to $578 million).
2. Announced: 9 October 2017 and Expired: 15 May 2018 (Authority for no. shares: 344,116,240 ordinary shares up to $557.60 million).
3. Announced: 14 February 2018 and Expired: 3 April 2018 (Authority for no. shares: 23,346,344 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 281,396,774 ordinary shares as treasury shares, representing 7.74% of the Company's called up share capital.

Authority to allot shares

Shareholder approval was given at the 2017 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 and 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 circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers

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

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

Share price

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

Source: Bloomberg

Price history

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

	Ordinary share (pence)		ADS ($)	
	High	**Low**	**High**	**Low**
2017/18	1,174.36	733.00	75.29	51.44
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
2017/18 Q4	879.70	733.00	59.07	51.44
Q3	981.77	859.30	63.36	57.65
Q2	981.77	914.60	65.60	60.08
Q1	1,174.36	950.60	75.29	62.59
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
April 2018	850.40	789.50	59.33	55.46
March 2018	810.30	735.50	56.99	51.44
February 2018	816.10	733.00	57.61	51.51
January 2018	879.70	793.70	59.07	56.63
December 2017	889.40	860.70	60.62	57.65

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2018.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	181,008	21.1411	5,548,121	0.1525
51-100	222,451	25.9815	15,693,078	0.4314
101-500	356,339	41.6191	74,091,129	2.0367
501-1,000	48,391	5.6519	33,694,975	0.9263
1,001-10,000	45,090	5.2663	110,446,732	3.0361
10,001-50,000	1,829	0.2136	33,248,050	0.9140
50,001-100,000	234	0.0273	16,832,870	0.4627
100,001-500,000	441	0.0515	104,097,557	2.8616
500,001-1,000,000	118	0.0138	83,235,041	2.2881
1,000,001+	290	0.0339	3,160,860,274	86.8906
Total	856,191	100	3,637,747,827	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 the 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 or the District of Columbia, (iii) an estate, the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

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

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our shares (by vote or value);
- 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
- US Holders 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 for US federal income tax purposes. 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 2018. 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 for US federal income tax purposes 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 the investor section of our website. 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 per month 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 2017 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 $54,000. For calendar year 2018, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to $18,500 for those under the age of 50 and $24,500 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 $55,000.

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 2018, the Company had undrawn borrowing facilities of £4.3 billion available to it with a number of banks and a further £1.07 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. 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: www.nationalgrid.com (where any amendments or waivers will also be posted). 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 2018, 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 Code of ethical business conduct – 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 116
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 200
Shareholder waivers of future dividends	Page 200
Agreements with controlling shareholders	Not applicable

Material contracts
On 31 March 2017 we sold a 61% interest in our UK Gas Distribution business (now known as Cadent) to the Consortium and at the same time entered into an agreement with the Consortium for the potential future sale and purchase of an additional 14% equity interest in Cadent. On 30 April 2018 we entered into a further agreement with the Consortium for the potential future sale and purchase of the remaining 25% equity interest in Cadent.

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 $62,100 (£44,321) 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 129-130, note 20 Borrowings on pages 140-141 and where we operate on page 185.

Research and development and innovation activity
Investment in research and development during the year for the Group was £13 million (2016/17: £14 million; 2015/16: £19 million). Delivering value to our stakeholders has continued to be a focus throughout 2017/18, with sustained innovation investment across our UK Regulated business areas: UK Electricity Transmission (ET) and UK Gas Transmission (GT). Collaboration remains crucial in search of new technologies and techniques to challenge the way we work. A focus has been on articulation of our innovation strategies through a joint Electricity and joint Gas Innovation strategy working alongside the Distribution Network Operators (DNOs) and the Gas Distribution Networks (GDNs) respectively. 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 advance our strategic ambitions to reduce the cost of delivering a secure, reliable and sustainable electricity transmission system. This year we have signed a £40 million Innovation Partnership with Siemens to research and develop the use of Gas Insulated Lines (GIL) on the electricity transmission network. Within this partnership we also plan to develop an alternative SF_6 free insulating gas mixture that has less than 0.05% of the global warming impact of SF_6. We have made progress on our portfolio of 50 innovation projects. At Deeside the overhead line test area is now in the construction phase and tender designs for the substation are under development. Design work for the refurbishment on converting the control room into the Innovation Centre has now commenced. This year we have completed a research programme to extend the life of our overhead line fittings. The research helped us to develop a greater understanding of how the environment affects our overhead line spans. This included an in-depth understanding of how the energy input from wind-induced motion and corrosive compounds increases the deterioration rate of conductors and fittings. The insight from these projects has enhanced our ability to target spending on those assets at highest risk of developing defects and failures, optimising our replacement plans. So far, we have analysed 265km of line, reducing our RIIO-T1 spending by £49 million from last year.

Scouting for the use of advanced materials has outlined 35 potential opportunities to apply improved materials on the electricity transmission network along with the benefits they will provide to the system.

The System Operator (SO) published its first ever Innovation Strategy in February 2018, sparking dialogue and collaboration across the industry and driving collaborative innovation across both gas and electricity transmission networks. The control room and forecasting teams have been able to use the initial outputs from our solar PV monitoring and forecasting projects, to help balance the system at times of high demand uncertainty. The SO Open Innovation Day brought in suppliers and potential innovation partners from around the industry to develop new proposals for solving SO challenges, the best ideas are now being developed into full Network Innovation Allowance projects. We are also a partner in two Vehicle to Grid (V2G) projects being funded through the £20 million BEIS competition announced last year, including a £9.8 million large-scale demonstrator project with Nissan.

Power Potential is a £9.5 million SO project in collaboration with UK Power Networks; £8 million of the project is funded through the 2016 Network Innovation Competition (NIC). The project aims to create a regional reactive power market for distributed energy resources and generate additional capacity on the network. This is a regional power market trial that will improve coordination between the SO, UK Power Networks (as a regional electricity distributor) and renewable energy generators connected to the distribution network in the South East of England. The market will help renewable energy generators offer their services to the SO, via a Distributed Energy Resource Management System located in UK Power Networks' distribution system. This will improve communication and coordination to maximise network capacity by better managing system constraints, giving the SO better access to previously unexploited power. New commercial frameworks will also create 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.

The SO has teamed up with industry and academics to find better ways of operating the electricity network with the £9.3 million Enhanced Frequency Control Capability (EFCC) project; £6.9 million of funding for this was awarded in the 2014 NIC. EFCC has developed a wide-area monitoring and control system to coordinate and maximise the contribution of rapid frequency response from a diverse range of providers. This will assist with frequency management in a future energy system, where increased volumes of renewable generation and interconnectors, coupled with a reduction of thermal generation have, and will continue to, reduce system inertia levels.

The SO is also working in partnership with Scottish Power Electricity Networks on their £19 million Phoenix project (£15.6 million awarded through 2016 NIC). In light of diminishing synchronous generation on the network, this project will design, deploy and operate a Hybrid-Synchronous compensator (H-SC), which will aim to maximise attributes of both a synchronous and static compensator. This project is another example of network operators exploring the use of innovative solutions to enhance the stability and security of our electricity system.

Throughout this past year, GT innovation has focused on the demonstration of value delivered by innovation to our customers, whilst seeking new opportunities to add further value. April 2017 saw the publication of the Innovation Value Mid-Term Report, which focused on 10 case study projects and demonstrated a 4:1 return on investment to date. Our portfolio has continued to grow with a core set of projects driven by safety, reliability, maintenance and asset health. Examples of projects on safety include the collaborative Gas Quality IGEM project, looking at the impact a change in gas quality specifications and the LiDAR project which uses light detection and ranging to carry out aerial inspections of our pipeline to highlight any potential safety issues. The Compressor Data Analytics project is an example of reliability focused projects, seeking to maximise the reliability of our compressors and allow for effective scheduling of maintenance. The advanced manufacturing (3D printing) project addresses a key maintenance issue of obsolete parts, using 3D printing to allow an asset to be repaired rather than replaced. An example of asset health management is the Artificial Intelligence (AI) for Pipeline Coating project, which uses AI to more efficiently identify and mitigate corrosion issues across the network.

Research & Development (R&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 R&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 Modernisation in Massachusetts and 'Reforming the Energy Vision' in New York). We continue to focus our gas R&D on increasing public safety, protecting our workforce and reducing the cost of the work we perform.

In 2017/18, we continued to invest and participate 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 R&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 distributed energy resources on the distribution system. We are also pre-approved to construct up to 14 MW of 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, asset management, system operations, information and communication technology and system planning.
- We are progressing four New York Reforming the Energy Vision 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 US 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, the Volt VAR Optimisation and Conservation Voltage Reduction pilot in Rhode Island have helped shape larger scale grid modernisation proposals in each of our jurisdictions.
- 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.
- While partnering with industry organisations and other utilities, we have developed a robot that enters our large diameter gas system and renews the pipeline without interrupting service to our gas customers. We have brought the robot from an idea, to prototype, to commercial tool and have now included its use into the rate structure as a viable method of renewing and extending the life of our large diameter gas distribution infrastructure. This technology is now being deployed throughout the US and UK.
- We have developed and are deploying new equipment to stop the flow of gas in our distribution mains. This equipment is much smaller than previous equipment and operates at higher pressure allowing our work force to perform work quicker and more safely in smaller excavations with less customer impact.
- To reinforce our commitment to the global environment, we are evaluating best practices for reducing the release of methane during maintenance activities. Technologies include the use of draw down compressors to move and reinject the gas after the work has been completed.
- We are currently field testing the use of drones to perform required regulatory patrols on our gas infrastructure rather than mobilising employees. This would allow a drone to fly an autonomous, pre-programmed flight plan in our remote service territory, while transmitting video back for inspection.

Unresolved SEC staff comments

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

Alternative performance measures/non-IFRS reconciliations

Within the Annual Report, a number of financial measures are presented. These measures have been categorised as alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines and the Securities and Exchange Commission (SEC) conditions for use of non-GAAP Financial Measures.

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these measures to provide a better understanding of its underlying performance. APMs are reconciled to the most directly comparable IFRS financial measure where practicable.

The Group has defined the following financial measures as APMs derived from IFRS: net revenue, the various adjusted operating profit, earnings and earnings per share metrics detailed in the 'adjusted profit measures' section below, net debt, capital investment, funds from operations (FFO), FFO/interest cover and retained cash flow (RCF)/adjusted net debt. For each of these we present a reconciliation to the most directly comparable IFRS measure.

In addition to these APMs, we also have APMs derived from regulatory measures which have no basis under IFRS; we call these Regulatory Performance Measures. They comprise: Group return on equity (RoE), UK and US regulatory RoE, regulated asset base, regulated financial performance, regulatory gearing, annual asset growth and Value Added including Value Added per share. These measures reflect the inputs used by utility regulators to set the allowed revenues for many of our businesses. As such, we believe that they provide close correlation to the economic value we generate for our shareholders and are therefore important supplemental measures for our shareholders to understand the performance of the business.

We use regulatory performance measures to monitor progress against our regulatory agreements and certain aspects of our strategic objectives. Further, targets for certain of these performance measures are included in the Company's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP) and contribute to how we reward our employees. We consider that such regulatory measures are important supplemental measures to our IFRS reporting to ensure a complete understanding of Group performance.

As the starting point for our Regulatory Performance Measures is not IFRS, and these measures are not governed by IFRS, we are unable to provide meaningful reconciliations to any directly comparable IFRS measures, as differences between IFRS and the regulatory recognition rules applied have built up over many years. Instead, for each of these we present an explanation of how the measure has been determined and why it is important, and an overview as to why it would not be meaningful to provide a reconciliation to IFRS.

Alternative performance measures

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.

	2018			2017			2016		
Year ended 31 March	**Gross revenue £m**	**Pass-through costs £m**	**Net revenue £m**	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m
UK Electricity Transmission	**4,154**	**(2,243)**	**1,911**	4,439	(2,293)	2,146	3,977	(2,030)	1,947
UK Gas Transmission	**1,091**	**(257)**	**834**	1,080	(223)	857	1,047	(221)	826
US Regulated	**9,272**	**(3,804)**	**5,468**	8,931	(3,411)	5,520	7,493	(3,154)	4,339
National Grid Ventures and Other	**776**	**–**	**776**	713	–	713	824	–	824
Sales between segments	**(43)**	**–**	**(43)**	(128)	–	(128)	(129)	–	(129)
Total	**15,250**	**(6,304)**	**8,946**	15,035	(5,927)	9,108	13,212	(5,405)	7,807

Adjusted profit measures:

In considering the financial performance of our business and segments, we use various adjusted profit measures in order to aid comparability of results year on year.

The various measures are presented on pages 23-25 and reconciled below.

Adjusted results, also referred to as Headline results – These exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors and further details of these items are included in Note 4 to the financial statements.

Underlying results – Further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2017/18, as highlighted on page 209, our underlying results exclude £104 million of timing differences, as well as £142 million of storm costs (which are significant in aggregate this year) where we expect to recover the bulk of the costs incurred through regulatory mechanisms in the US.

Prior period pro forma including Cadent overlay – To aid comparability with prior years, we show an estimate of adjusted and underlying results and earnings for the continuing business in 2017 and 2016, including an estimated contribution from our 39% interest in UK Gas Distribution (now Cadent).

Constant currency – The adjusted profit measures are also shown on a constant currency basis to show the year on year comparisons excluding any impact of foreign currency movements.

Reconciliation of Statutory, Adjusted, Underlying and Underlying (pro forma) Profits and Earnings – At actual exchange rates – Continuing operations

Year ended 31 March 2018	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay[1,2] £m	Underlying (pro forma) £m
UK Electricity Transmission	1,041	–	1,041	14	–	1,055	–	1,055
UK Gas Transmission	487	–	487	18	–	505	–	505
US Regulated	1,734	(36)	1,698	(136)	142	1,704	–	1,704
NGV and Other	231	–	231	–	–	231	–	231
Total operating profit	3,493	(36)	3,457	(104)	142	3,495	–	3,495
Net finance costs	(745)	(229)	(974)	–	–	(974)	–	(974)
Share of post-tax results of JVs and associates	(40)	207	167	–	–	167	–	167
Profit before tax	2,708	(58)	2,650	(104)	142	2,688	–	2,688
Tax	884	(1,473)	(589)	42	(51)	(598)	–	(598)
Profit after tax	3,592	(1,531)	2,061	(62)	91	2,090	–	2,090

Year ended 31 March 2017	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay[1,2] £m	Underlying (pro forma) £m
UK Electricity Transmission	1,361	11	1,372	(137)	–	1,235	–	1,235
UK Gas Transmission	507	4	511	(62)	–	449	–	449
US Regulated	1,278	435	1,713	(199)	–	1,514	–	1,514
NGV and Other	62	115	177	–	–	177	–	177
Total operating profit	3,208	565	3,773	(398)	–	3,375	–	3,375
Net finance costs	(1,087)	58	(1,029)	–	–	(1,029)	29	(1,000)
Share of post-tax results of JVs and associates	63	–	63	–	–	63	144	207
Profit before tax	2,184	623	2,807	(398)	–	2,409	173	2,582
Tax	(374)	(292)	(666)	119	–	(547)	(6)	(553)
Profit after tax	1,810	331	2,141	(279)	–	1,862	167	2,029

Year ended 31 March 2016	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay[1,2] £m	Underlying (pro forma) £m
UK Electricity Transmission	1,173	–	1,173	(5)	–	1,168	–	1,168
UK Gas Transmission	486	–	486	(67)	–	419	–	419
US Regulated	1,196	(11)	1,185	73	–	1,258	–	1,258
NGV and Other	370	–	370	–	–	370	–	370
Total operating profit	3,225	(11)	3,214	1	–	3,215	–	3,215
Net finance costs	(955)	99	(856)	–	–	(856)	29	(827)
Share of post-tax results of JVs and associates	59	–	59	–	–	59	164	223
Profit before tax	2,329	88	2,417	1	–	2,418	193	2,611
Tax	(427)	(177)	(604)	(15)	–	(619)	(6)	(625)
Profit after tax	1,902	(89)	1,813	(14)	–	1,799	187	1,986

Reconciliation of Adjusted, Underlying and Underlying (pro forma) Profits – At constant currency

Year ended 31 March 2017	Adjusted at actual exchange £m	Constant currency adjustment £m	At constant currency: Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay[1,2] £m	Underlying (pro forma) £m
UK Electricity Transmission	1,372	–	1,372	(137)	–	1,235	–	1,235
UK Gas Transmission	511	–	511	(62)	–	449	–	449
US Regulated	1,713	(102)	1,611	(187)	–	1,424	–	1,424
National Grid Ventures and Other	177	4	181	–	–	181	–	181
Total operating profit	3,773	(98)	3,675	(386)	–	3,289	–	3,289
Net finance costs	(1,029)	45	(984)	–	–	(984)	29	(955)
Share of post-tax results of JVs and associates	63	(1)	62	–	–	62	144	206
Profit before tax	2,807	(54)	2,753	(386)	–	2,367	173	2,540

Year ended 31 March 2016	Adjusted at actual exchange £m	Constant currency adjustment £m	At constant currency: Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay[1,2] £m	Underlying (pro forma) £m
UK Electricity Transmission	1,173	–	1,173	(5)	–	1,168	–	1,168
UK Gas Transmission	486	–	486	(67)	–	419	–	419
US Regulated	1,185	102	1,287	79	–	1,366	–	1,366
National Grid Ventures and Other	370	2	372	–	–	372	–	372
Total operating profit	3,214	104	3,318	7	–	3,325	–	3,325
Net finance costs	(856)	(55)	(911)	–	–	(911)	29	(882)
Share of post-tax results of JVs and associates	59	1	60	–	–	60	164	224
Profit before tax	2,417	50	2,467	7	–	2,474	193	2,667

Note 1: 2017 and 2016 estimates including 39% interest in UK Gas Distribution for the years ended 31 March 2017 and 31 March 2016

The 2017 and 2016 estimates include a Cadent overlay approximating a 39% stake in UK Gas Distribution (see note 9 of the annual report and accounts for further detail), we have imputed additional net income as follows:
- Reduction to net finance cost of £29m in each year reflecting additional interest receivable on the shareholder loan;
- Increase in share of post-tax results of joint ventures and associates based on actual underlying operating profit excluding timing reported by UK Gas Distribution in 2017 and 2016, less the effect of provisional purchase price adjustments, finance costs reflecting the cost charged to discontinued operations in the comparative periods, estimated additional financing costs at holding company level and the tax effects thereon.

Note 2: Weighted average number of shares

	2018 Millions	2017 Millions	2016 Millions
Weighted average number of shares used for basic EPS	**3,461**	3,763	3,774
Reduction to reflect implied return of capital	**–**	(300)	(300)
Weighted average number of shares used for pro forma	**3,461**	3,463	3,474

The reduction in the weighted average number of shares is an approximation of the impact of the share consolidation and share buyback had these events taken place during the comparative periods.

Earnings per share calculations from continuing operations – at actual exchange rates

The table below reconciles the profit before tax from continuing operations per the previous tables back to the earnings per share from continuing operations for each of the adjusted profit measures. Earnings per share is only presented for those adjusted profit measures that are at actual exchange rates, and not for those at constant currency.

Year ended 31 March 2018	**Profit after tax £m**	**Non-controlling interest £m**	**Profit after tax attributable to shareholders £m**	**Weighted average number of shares millions**	**Earnings per share pence**
Statutory	**3,592**	**(1)**	**3,591**	**3,461**	**103.8**
Adjusted (also referred to as headline)	**2,061**	**(1)**	**2,060**	**3,461**	**59.5**
Underlying	**2,090**	**(1)**	**2,089**	**3,461**	**60.4**

Year ended 31 March 2017	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,810	–	1,810	3,763	48.1
Adjusted (also referred to as headline)	2,141	–	2,141	3,763	56.9
Underlying	1,862	–	1,862	3,763	49.5
Underlying (pro forma)	2,029	–	2,029	3,463	58.6

Year ended 31 March 2016	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,902	(1)	1,901	3,774	50.4
Adjusted (also referred to as headline)	1,813	(1)	1,812	3,774	48.0
Underlying	1,799	(1)	1,798	3,774	47.6
Underlying (pro forma)	1,986	(1)	1,985	3,474	57.1

Timing impacts

Under the Group's regulatory frameworks, the majority of the revenues that National Grid is allowed to collect each year are governed by a regulatory price control or rate plan. If a company collects more than this allowed level of revenue, the balance must be returned to customers in subsequent years, and if it collects less than this level of revenue it may recover the balance from customers in subsequent years. These variances between allowed and collected revenues give rise to 'over and under recoveries'. Opening balances of over and under recoveries have been restated where appropriate to correspond with regulatory filings and calculations.

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2017 closing balance[1]	(30)	112	312	394
Opening balance adjustments	–	(1)	(218)	(219)
Restated 1 April 2017 opening balance	(30)	111	94	175
Over/(under) recovery	(14)	(18)	136	104
31 March 2018 closing balance to (recover)/return	(44)	93	230	279
Year on year timing variance	(151)	(80)	(51)	(282)

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2016 closing balance[1]	(171)	38	147	14
Opening balance adjustments	4	12	(22)	(6)
Restated 1 April 2016 opening balance	(167)	50	125	8
Over/(under) recovery[2]	137	62	187	386
31 March 2017 closing balance to (recover)/return	(30)	112	312	394
Year on year timing variance	132	(5)	283	410

1. Opening US Regulated balances restated using the average rate for the year to 31 March 2018.
2. Over/under recovery restated using the average rate for the year to 31 March 2018.

Other unaudited financial information continued

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2015 closing balance	(164)	(29)	184	(9)
Opening balance adjustments	(12)	–	56	44
Restated 1 April 2015 opening balance	(176)	(29)	240	35
Over/(under) recovery[2]	5	67	(84)	(12)
31 March 2016 closing balance to (recover)/return[1]	(171)	38	156	23

1. Over/(under) recovery restated using the average rate for the year to 31 March 2017.
2. Closing US Regulated balances restated using the spot exchange rate as at 31 March 2017.

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 Homes LLP joint venture during the period. St William Homes LLP is excluded based on the nature of this joint venture arrangement.

	At actual exchange rates			At constant currency		
Year ended 31 March	**2018 £m**	2017 £m	% change	**2018 £m**	2017 £m	% change
UK Electricity Transmission	**999**	1,027	(3)	**999**	1,027	(3)
UK Gas Transmission	**310**	214	45	**310**	214	45
US Regulated	**2,424**	2,247	8	**2,424**	2,113	15
NGV and Other	**341**	247	38	**341**	239	43
Group capex	**4,074**	3,735	9	**4,074**	3,593	13
Equity investment, funding contributions and loans to joint ventures and associates[1]	**177**	127	39	**177**	124	43
Group capital investment	**4,251**	3,862	10	**4,251**	3,717	14

1. Excludes £19m (2017: £10m) equity contribution to the St William Homes LLP joint venture.

Net debt

See note 27 on page 155 for reconciliation of net debt.

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.

Year ended 31 March	**2018 £m**	2017[1] £m	2016[1] £m
Interest expense (P&L)	**1,128**	1,082	1,035
Hybrid interest reclassified as dividend	**(51)**	(51)	(49)
Capitalised interest	**128**	109	112
Pensions interest adjustment	**(49)**	(60)	(60)
Interest on lease rentals adjustment	**16**	18	17
Unwinding of discount on provisions	**(75)**	(73)	(73)
Other interest adjustments	**12**	1	1
Interest paid (discontinued operations)	**–**	146	–
Adjusted interest expense	**1,109**	1,172	983
Net cash inflow from operating activities	**4,710**	4,320	5,368
Interest received on financial instruments	**57**	51	23
Interest paid on financial instruments	**(853)**	(839)	(834)
Dividends received	**213**	99	72
Working capital adjustment	**(118)**	(151)	(456)
Excess employer pension contributions	**211**	606	301
Hybrid interest reclassified as dividend	**51**	51	49
Lease rentals	**86**	86	77
Difference in net interest expense in income statement to cash flow	**(178)**	(170)	(129)
Difference in current tax in income statement to cash flow	**(206)**	(47)	(42)
Current tax related to prior periods	**(22)**	(46)	(26)
Cash flow from discontinued operations	**(207)**	909	–
Interest paid (discontinued operations)	**–**	(146)	–
Funds from operations (FFO)	**3,744**	4,723	4,403
Interest cover ((FFO + adjusted interest expense)/adjusted interest expense)	**4.4x**	5.0x	5.5x

1. Numbers for 2017 and 2016 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

Year ended 31 March	2018 £m	2017 £m	2016 £m
Funds from operations (FFO)	**3,744**	4,723	4,403
Hybrid interest reclassified as dividend	**(51)**	(51)	(49)
Ordinary dividends paid to shareholders	**(1,316)**	(1,463)	(1,337)
RCF (excluding share buybacks)	**2,377**	3,209	3,017
Repurchase of scrip treasury shares	**(178)**	(189)	(267)
RCF (net of share buybacks)	**2,199**	3,020	2,750
Bank overdrafts	**–**	–	3
Borrowings	**26,625**	28,638	28,341
Less:			
50% hybrid debt	**(1,050)**	(1,033)	(995)
Cash and cash equivalents	**(329)**	(1,139)	(127)
Restricted cash	**–**	2	2
Available-for-sale investments	**(2,304)**	(7,432)	(1,951)
Underfunded pension obligations	**857**	1,487	1,434
Operating leases adjustment[1]	**408**	526	544
Derivative asset removed from debt	**(479)**	52	(183)
Currency swaps	**117**	72	55
Nuclear decommissioning liabilities reclassified as debt	**5**	36	38
Collateral – cash received under collateral agreements	**(878)**	(709)	(610)
Accrued interest removed from short term debt	**(195)**	(210)	(243)
Adjusted net debt (includes pension deficit)	**22,777**	20,290	26,308
FFO/adjusted net debt	**16.4%**	23.3%	16.7%
RCF (excluding share buybacks)/adjusted net debt	**10.4%**	15.8%	11.5%
RCF (net of share buybacks)/adjusted net debt	**9.7%**	14.9%	10.5%

1. Adjustment to reclassify operating lease commitments as debt. For March 2018 this was calculated as four times the 2017/18 operating lease rental charge.

Regulatory Performance Measures

Regulated financial performance

Regulatory financial performance is a pre interest and tax measure, starting at segmental operating profit and making adjustments (such as the elimination of all pass-through items included in revenue allowances and timing) to approximate regulatory profit for the UK regulated activities. This measure provides a bridge for investors between a well understood and comparable IFRS starting point through the key adjustments required to approximate regulatory profit. This measure also provides the foundation to calculate profit driven regulatory returns i.e. Return on Capital Employed (RoCE) and Group Return on Equity (RoE).

For the reasons noted above, the table below shows the principal differences between the IFRS operating profit and the regulated financial performance, but is not a formal reconciliation to an equivalent IFRS measure.

UK Electricity Transmission

Year ended 31 March	2018 £m	2017 £m	2016 £m
Reported operating profit	**1,041**	1,372	1,173
Movement in regulatory 'IOUs'	**51**	(288)	(147)
Deferred taxation adjustment	**70**	62	80
RAV indexation (average 3% long-run inflation)	**374**	356	339
Regulatory vs IFRS depreciation difference	**(377)**	(379)	(368)
Fast/slow money adjustment	**69**	34	92
Pensions	**(49)**	(47)	(54)
Performance RAV created	**83**	74	80
Regulated financial performance	**1,262**	1,184	1,195

UK Gas Transmission

Year ended 31 March	2018 £m	2017 £m	2016 £m
Reported operating profit	**487**	511	486
Movement in regulatory 'IOUs'	**(91)**	(120)	(80)
Deferred taxation adjustment	**18**	39	45
RAV indexation (average 3% long-run inflation)	**173**	168	166
Regulatory vs IFRS depreciation difference	**(29)**	(21)	(18)
Fast/slow money adjustment	**(11)**	(14)	18
Pensions	**(32)**	(53)	(77)
Performance RAV created	**(16)**	(11)	(5)
Regulated financial performance	**499**	499	535

Other unaudited financial information continued

Regulated asset base

The regulated asset base is a regulatory construct, based on pre-determined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. By investing efficiently in our networks, we add to our regulated asset base over the long-term and this in turn contributes to delivering shareholder value. Our regulated asset base is comprised of our regulatory asset value in the UK, plus our rate base in the US.

Maintaining efficient investment in our regulated asset base ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% growth in regulated asset base each year through continued investment in our networks in both the UK and US.

In the UK, the way in which our transactions impact RAV is driven by principles set out by Ofgem. In a number of key areas these principles differ from the requirements of IFRS, including areas such as additions and the basis for depreciation. Further, our UK RAV is adjusted annually for inflation. RAV in each of our retained UK businesses has evolved over the period since privatisation in 1990 and as a result, historical differences between the initial determination of RAV and balances reported under UK GAAP at that time still persist. Due to the above, substantial differences exist in the measurement bases between RAV and an IFRS balance metric and, therefore, it is not possible to provide a meaningful reconciliation between the two.

In the US, rate base is a regulatory measure determined for each of our main US operating companies. It represents the value of property and other assets or liabilities on which we are permitted to earn a rate of return, as set out by the regulatory authorities for each jurisdiction. The calculations are based on the applicable regulatory agreements for each jurisdiction and include the allowable elements of assets and liabilities from our US companies. For this reason, it is not practical to provide a meaningful reconciliation from the US rate base to an equivalent IFRS measure. However, we include the calculation below.

Years ended 31 March (£m at constant currency)	RAV, rate base or other business assets		Total Regulated and other assets	
	2018	2017[1]	**2018**	2017[1]
UK Electricity Transmission	**13,045**	12,479	**12,651**	12,034
UK Gas Transmission	**6,014**	5,755	**5,889**	5,721
US Regulated	**14,762**	13,751	**16,683**	15,238
Total Regulated	**33,821**	31,985	**35,223**	32,993
Other assets/invested capital	**2,167**	1,984	**1,824**	1,724
Total Group Regulated and other assets	**35,988**	33,969	**37,047**	34,717

1. Represented to include opening balance adjustments following the completion of the regulatory reporting pack process in 2017.

US rate base and total regulated assets for 31 March 2017 have been restated in the table above at constant currency. At actual currency the values were £15,398 million and £17,063 million respectively.

Other business assets and other assets/invested capital for 31 March 2017 have been restated in the table above at constant currency. At actual currency the values were £2,055 million and £1,814 million respectively.

Group return on equity (RoE)

Group RoE provides investors with a view of the performance of the Group as a whole compared with the amounts invested by the Group in assets attributable to equity shareholders. It is the ratio of our regulatory financial performance to our measure of equity investment in assets. It therefore reflects the regulated activities as well as the contribution from our non-regulated businesses together with joint ventures and non-controlling interests.

We use Group RoE to measure our performance in generating value for our shareholders and a target for Group RoE is included in the incentive mechanisms for executive remuneration within both the APP and LTPP schemes.

Group RoE is underpinned by our regulated asset base. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical. However, we do include the calculations below.

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 National Grid Ventures and 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.

Year ended 31 March	2018 £m	2017 £m	2016 £m
Regulated financial performance	**3,392**	3,906	3,663
Operating profit of other activities	**255**	204	374
Group financial performance	**3,647**	4,110	4,037
Share of post-tax results of joint ventures and associates	**238**	63	59
Non-controlling interests	**(1)**	1	(3)
Adjusted Group interest charge	**(980)**	(1,075)	(922)
Group tax charge	**(639)**	(808)	(753)
Tax on adjustments	**27**	166	4
Group financial performance after interest and tax	**2,292**	2,457	2,422
Opening rate base/RAV	**32,446**	40,435	36,998
Share of Cadent RAV	**512**	–	–
Opening NBV of non-regulated businesses	**1,328**	1,579	1,213
Joint ventures and associates	**459**	408	319
Opening goodwill	**5,626**	5,984	5,182
Opening capital employed	**40,371**	48,406	43,712
Opening net debt	**(21,770)**	(27,346)	(24,024)
Opening equity	**18,601**	21,060	19,688
Return on Equity	**12.3%**	11.7%	12.3%

UK regulated Return on Equity (RoE)

UK regulated RoEs are a measure of how the businesses are performing against the assumptions used by our 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%. They are calculated by dividing elements of out- or under-performance versus the regulatory contract by the average equity RAV in line with the regulatory assumed capital structure and adding to the base allowed RoE.

This is an important measure of UK regulated business performance and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing under the RIIO framework and also helps investors to compare our performance with similarly regulated UK entities. Reflecting the importance of this metric, it is also a key component of both the APP and LTPP schemes.

The UK RoE is underpinned by the UK RAV. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical.

US regulated Return on Equity

US regulated RoE is a measure of how a business is performing 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. The returns are divided by the average rate base (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 adjudicated capital structure.

This is an important measure of our US regulated business performance and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing and also helps investors compare our performance with similarly regulated US entities. Reflecting the importance of this metric, it is also a key component of both the APP and LTPP schemes.

The US return is based on a calculation which gives proportionately more weighting to those jurisdictions which have a greater rate base. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical. However we do include the calculations below.

Years ended 31 March %	Regulatory Debt: Equity assumption	Achieved Return on Equity		Base or Allowed Return on Equity	
		2018	2017	**2018**	2017
UK Electricity Transmission	**60/40**	**13.1**	13.6	**10.2**	10.2
UK Gas Transmission	**62.5/37.5**	**10.0**	10.8	**10.0**	10.0
US Regulated	**Avg. 50/50**	**8.9**	8.2	**9.4**	9.5

Other unaudited financial information continued

Value Added and Value Added per share

Value Added is a measure that reflects the value to shareholders of our dividend and the growth in National Grid's regulated and non-regulated assets (as measured in our rate base, for regulated entities), net of the growth in overall debt. It is a key metric used to measure our performance and underpins our approach to sustainable decision-making and long-term management incentive arrangements.

Value Added is derived using our regulated asset base and, as such, it is not practical to provide a meaningful reconciliation from this measure to an equivalent IFRS measure due to the reasons set out for our regulated asset base. However, the calculation is set out in the Financial Review on page 24.

Value Added per share is calculated by dividing Value Added by the weighted average number of shares set out in note 7 on page 123.

Regulatory gearing

Regulatory gearing is a measure of how much of our investment in RAV and rate base and other elements of our invested capital (including our investments in National Grid Ventures, UK property and other assets and US other assets) is funded through debt.

Year ended 31 March	2018 £m	2017[1] £m	% change
UK RAV	**19,059**	18,219	**5**
US rate base	**14,762**	15,398	**(4)**
Other invested capital included in gearing calculation	**2,167**	2,055	**5**
Total assets included in gearing calculation	**35,988**	35,672	**1**
Net debt (including 100% of hybrid debt)	**23,002**	23,284	**(1)**
Group gearing (based on 100% of net debt)	**64%**	65%	**(2)**
Group gearing (excluding 50% of hybrid debt from net debt)	**61%**	62%	**(2)**

1. Net debt for 2017 adjusted to include impact of future £4.01 billion return of capital relating to the sale of a stake in UK Gas Distribution.

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 186-191, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from the estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

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

Our continuing operating profit for the year includes a total estimated in-year over-collection of £104 million (2016/17: £398 million over-collection). Our closing balance at 31 March 2018 was £279 million over-recovered. In the UK, there was cumulative over-recovery of £49 million at 31 March 2018 (2017: over-recovery of £82 million for continuing operations). In the US, cumulative timing over-recoveries at 31 March 2018 were £230 million (2017: £332 million over-recovery). A sizeable part of that balance is expected to be returned to customers next year.

The total estimated in-year over-or under-collection excludes opening balance adjustments related to estimates or finalisation of balances as part of regulatory submissions.

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

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

For our UK Regulated businesses as a whole (excluding the UK Gas Distribution business), timing and regulated revenue adjustments totalled £40 million in the year (2016/17: £408 million). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2018, these extend until 2069.

Commentary on consolidated financial statements
for the year ended 31 March 2017

In compliance with SEC rules, we present a summarised analysis of movements in the income statement and an analysis of movements in adjusted operating profit (for the continuing group) by operating segment. This should be read in conjunction with the 31 March 2018 unaudited commentary included on pages 96 and 111.

Analysis of the income statement for the year ended 31 March 2017

Revenue
Revenue for the year ended 31 March 2017 increased by £1,823 million to £15,035 million. This increase was driven by higher revenues in both our UK and US Regulated businesses. US Regulated revenues were £1,438 million higher year-on-year including favourable impact from foreign exchange, increased regulatory revenue allowances and favourable timing of recoveries. UK regulated revenues increased by £495 million, including increased regulatory allowances, timing over-recoveries and increased system balancing revenues. Revenue from Other activities decreased, including lower interconnector and metering income.

Operating costs
Operating costs for the year ended 31 March 2017 of £11,827 million were £1,840 million higher than 2015/16. This increase in costs included a £576 million increase in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £1,264 million higher, principally due to the impact of foreign exchange rates alongside increased balancing services costs in the UK and higher depreciation as a result of newly commissioned assets.

Net finance costs
For the year ended 31 March 2017, net finance costs before exceptional items and remeasurements were £173 million higher than 2015/16 at £1,029 million, mainly as a result of the impact of the stronger US dollar, higher UK RPI inflation and increased levels of average net debt in continuing operations.

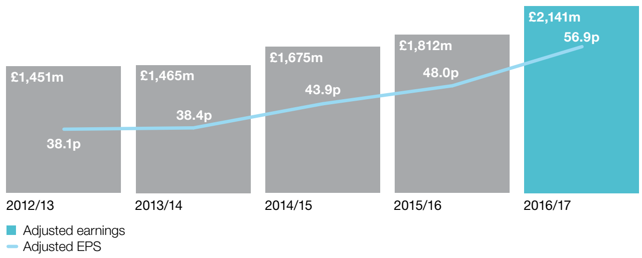
Tax
The tax charge on profits before exceptional items and remeasurements was £62 million higher than 2015/16. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year decreased to 23.7% (2015/16: 25.0%) reflecting settlements relating to prior years partially offset by an increased proportion of profits before tax being generated in the US.

Exceptional items and remeasurements
Operating costs for the year ended 31 March 2017 included a £68 million gain on remeasurements of commodity contracts, together with £633 million exceptional costs associated with environmental charges and gas holder decommissioning. In 2015/16, operating costs included a net £11 million gain on remeasurements of commodity contracts.

Finance costs for the year ended 31 March 2017 included a loss of £58 million on financial remeasurements, relating to net losses on derivative financial instruments. Exceptional tax for 2016/17 was a credit of £292 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 applicable from April 2020 from 18% to 17%.

Adjusted earnings and EPS from continuing operations
Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 209 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations[1]



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2016/17 of 8.9p (19%).

Exchange rates
Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2016/2017	2015/2016	% change
Weighted average (income statement)	**1.28**	1.47	(13)%
Year-end (statement of financial position)	**1.25**	1.44	(13)%

The movement in foreign exchange during 2016/17 has resulted in a £1,175 million increase in revenue, a £187 million increase in adjusted operating profit and a £189 million increase in operating profit.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2017

UK Electricity Transmission

For the year ended 31 March 2017, revenue in the UK Electricity Transmission segment increased by £462 million to £4,439 million and adjusted operating profit increased by £199 million to £1,372 million.

The revenue growth of £462 million principally reflected the recovery of higher pass-through costs such as system balancing costs, increased regulated revenue allowances and the impact of higher volumes. Net revenue after deducting pass-through costs was £199 million higher. Regulated controllable costs were £25 million lower reflecting reduced environmental costs. Depreciation and amortisation was £31 million higher, reflecting the continued capital investment programme. Other costs were £6 million lower than 2015/16 including lower asset disposal costs. Capital expenditure decreased by £57 million compared with last year to £1,027 million.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £33 million to £1,080 million and adjusted operating profit increased by £25 million to £511 million.

After deducting pass-through costs, net revenue was £31 million higher than 2015/16, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. Regulated controllable costs were £2 million higher than 2015/16, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than 2015/16.

Capital expenditure increased to £214 million, £28 million higher than last year.

US Regulated

Revenue in our US Regulated business increased by £1,438 million to £8,931 million and adjusted operating profit increased by £528 million to £1,713 million.

The stronger US dollar increased revenue and operating profit in 2016/17 by £1,160 million and £184 million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange) resulting in an increase in net regulated revenue of £509 million at constant currency. Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation was £24 million higher at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Our capital expenditure in the US continued to increase with £2,247 million of expenditure in 2016/17, £391 million more than in 2015/16. At constant currency, this represented a £104 million increase in investment driven by higher investment in new and replacement gas mains.

Other activities

Revenue in Other activities decreased by £111 million to £713 million and adjusted operating profit decreased by £193 million to £177 million.

In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs. Capital expenditure in our Other activities was £46 million higher than 2015/16 at £247 million.

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 2018. 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 2014, 2015, 2016, 2017 and 2018 has been prepared under IFRS as issued by the IASB and as adopted by the EU[1].

Summary income statement (£m)	2018	2017	2016[1]	2015[1]	2014[1,2]
Continuing operations					
Revenue	**15,250**	15,035	13,212	13,357	12,941
Operating profit					
Before exceptional items, remeasurements	**3,457**	3,773	3,214	3,034	2,777
Exceptional items, remeasurements	**36**	(565)	11	(83)	116
Profit before tax					
Before exceptional items, remeasurements	**2,650**	2,807	2,417	2,208	1,867
Exceptional items, remeasurements	**(589)**	(623)	(88)	(248)	209
Profit after tax from continuing operations					
Before exceptional items, remeasurements	**2,061**	2,141	1,813	1,665	1,450
Exceptional items, remeasurements	**1,531**	(331)	89	(172)	324
Profit after tax from discontinued operations					
Before exceptional items, remeasurements	**–**	606	576	516	553
Exceptional items, remeasurements	**(41)**	57	116	2	137
Gain/(loss) on disposal of UK Gas Distribution after tax	**–**	5,321	–	–	–
Total profit for the year	**3,551**	7,794	2,594	2,011	2,464
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements	**2,060**	2,748	2,386	2,189	2,015
Exceptional items, remeasurements	**1,490**	(274)	205	(170)	461
Gain on disposal of UK Gas Distribution after tax	**–**	5,321	–	–	–
Total	**3,550**	7,795	2,591	2,019	2,476
Earnings per share					
Basic – continuing operations (pence)	**103.8**	48.1	50.4	39.4	46.9
Diluted – continuing operations (pence)	**103.3**	47.9	50.2	39.2	46.6
Basic – total (pence)	**102.6**	207.1	68.7	52.9	64.9
Diluted – total (pence)	**102.1**	206.2	68.4	52.7	64.5
Weighted average number of shares – basic (millions)	**3,461**	3,763	3,774	3,817	3,817
Weighted average number of shares – diluted (millions)	**3,476**	3,780	3,790	3,834	3,836
Dividends per ordinary share					
Paid during the year (pence)	**128.965**	43.51	43.16	42.25	40.85
Approved or proposed during the year (pence)[3]	**30.44**	128.65	43.34	42.87	42.03
Paid during the year ($)	**1.751**	0.555	0.664	0.697	0.636
Approved or proposed during the year ($)	**0.413**	1.642	0.635	0.672	0.696

1. Items previously reported for 2014–2016 have been represented to reflect UK Gas Distribution being presented as a discontinued operation.
2. For the years ended 31 March 2018, 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.
3. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that was paid on 2 June 2017.

	2018	2017	2016	2015	2014[1]
Summary statement of net assets (£m)					
Non-current assets	**52,106**	52,266	52,622	49,058	44,895
Current assets	**6,681**	13,574	6,312	6,031	7,489
Total assets	**58,787**	65,840	58,934	55,089	52,384
Current liabilities	**(8,697)**	(10,511)	(7,721)	(7,374)	(7,331)
Non-current liabilities	**(31,242)**	(34,945)	(37,648)	(35,741)	(33,134)
Total liabilities	**(39,939)**	(45,456)	(45,369)	(43,115)	(40,465)
Net assets	**18,848**	20,384	13,565	11,974	11,919
Total shareholders' equity	**18,832**	20,368	13,555	11,962	11,911

1. For the years ended 31 March 2018, 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.

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

Adjusted interest
A measure used by the credit rating agencies of the interest charge of the Group, calculated by making adjustments to the group reported interest charge

Adjusted net debt
A measure used by the credit rating agencies of the indebtedness of the Group calculated by making adjustments to the group reported borrowings including adjustments to include elements of pension deficits and exclude elements of hybrid debt financing.

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

BAME
Black, Asian, and minority ethnic (being the UK term used to refer to members of non-white communities).

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 42-43).

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

Cadent
Cadent Gas Limited (new name given to UK Gas Distribution business).

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.

Capital tracker
In the context of our US rate plans, a mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

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 (now renamed as Cadent) 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 $1.36 to £1.00. The average rate for the year ended 31 March 2016, was $1.28 to £1.00. Assets and liabilities as at 31 March 2016 have been retranslated at the closing rate at 31 March 2017 of $1.40 to £1.00. The closing rate for the balance sheet date 31 March 2016 was $1.25 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 amended and restated deposit agreement entered into between National Grid plc, the Depositary and all the registered holders from time to time of ADRs, pursuant to which ADSs have been issued, dated 23 May 2013, and any related agreement.

Depositary
Depositary means The Bank of New York Mellon acting as depositary.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 42-43 of this document.

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

E

earnings per share (EPS)
Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

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

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 is 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 178-183, which are prepared in accordance with FRS 101.

Funds from Operations (FFO)
A measure used by the credit rating agencies of the operating cash flows of the Group after interest and tax but before capital investment.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

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

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

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

GWm
Gigawatt month, being an amount of energy equivalent to delivering 1 billion watts (10^9 watts) of power for a period of one month.

H

Hinkley-Seabank (HSB)
A project to connect the new Hinkley Point C nuclear power station to the electricity transmission network.

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.

interest cover
A measure used by the credit rating agencies, calculated as FFO plus adjusted interest divided by adjusted interest.

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.

KPI
Key performance indicator

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

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

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

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.

National Grid Ventures or NGV
The Company's new unit, operating outside its core UK and US regulated businesses comprising a broad range of activities in the UK and US including electricity interconnectors, the Grain LNG terminal and energy metering as well as being tasked with investment in adjacent businesses, distributed energy opportunities and the development of new and evolving technologies.

Net Promoter Score (NPS)
A commonly used tool to measure customer experience to gauge the loyalty of a company's customer relationships. It is an index ranging from -100 to +100.

Net revenue
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 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 $12\frac{204}{473}$ pence following the share consolidation approved at the General Meeting of the Company held on 19 May 2017.

P

Paris Agreement
Means the agreement, also known as the Paris climate accord, within the United Nations Framework Convention on Climate Change dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and adopted by consensus on 12 December 2015.

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.

retained cash flow (RCF)
A measure used by the credit rating agencies of the cash flows of the Group, calculated as funds from operations less dividends paid and costs of repurchasing scrip shares.

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.

RIIO-T2
The regulatory framework expected to be issued by Ofgem to start on 1 April 2021.

RIPUC
The Rhode Island Public Utilities Commission.

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

S

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

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

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

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

SF_6
Sulphur hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF_6 is used in the electricity industry as a gaseous dielectric medium for high voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF_6 is 23,900 times more potent than that of CO_2.

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

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

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

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

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

T

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

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

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

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

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

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

totex
Total expenditure, comprising capital and operating expenditure.

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

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

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 2016, 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 and 2017/18, 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 growth in net debt, as a percentage.

Want more information or help?

Link 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@linkgroup.co.uk

National Grid Share Register
Link 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

BNY Mellon – ADR
PO Box 505000
Louisville, KY 40233-5000

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 2018	Ordinary shares and ADRs go ex-dividend for 2017/18 final dividend
1 June 2018	Record date for 2017/18 final dividend
7 June 2018	Scrip reference price announced
28 June 2018 (5pm London time)	Scrip election date
30 July 2018	2018 AGM
15 August 2018	2017/18 final dividend paid to qualifying shareholders
8 November 2018	2018/19 half-year results
21 November 2018	ADRs go ex-dividend for 2018/19 interim dividend
22 November 2018	Ordinary shares go ex-dividend for 2017/18 interim dividend
23 November 2018	Record date for 2018/19 interim dividend
29 November 2018	Scrip reference price announced
7 December 2018 (5pm London time)	Scrip election date for 2018/19 interim dividend
9 January 2019	2018/19 interim dividend paid to qualifying shareholders

Dividends

The Directors are recommending a final dividend of 30.44 pence per ordinary share ($2.0606 per ADS) to be paid on 15 August 2018 to shareholders on the register as at 1 June 2018. Further details in respect of dividend payments can be found on page 25. 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 2017/18 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

Link 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 – 0.43% of the trade value (minimum £21.90, maximum £70.78) until 28 September 2018. 0.50% of the trade (minimum £19.00, maximum £76.50) after 28 September 2018.

Postal Dealing Commission – 12 pence per share (maximum £12.00) when selling 101–150 shares, flat fee of £18.00 when selling 151 shares or more. No commission will be chargeable for shareholders holding up to 100 shares until 28 September 2018.

Telephone Dealing Commission – 0.75% of the trade (minimum £29.50, maximum £119.50).

Visit www.linksharedeal.com/nationalgrid or call Link 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 Link Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0180, email fit@stocktrade.co.uk or write to Alliance Trust Savings, PO Box 164, 8 West Marketgait, Dundee DD1 9YP.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2018 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditor's report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 2-79 and 184-217 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 'aims', '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 UK electricity system operator as well as increased political and economic uncertainty; 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; failure to adequately forecast and respond to disruptions in energy supply; 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 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 acquisitions and disposals) 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 193-196 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.