nationalgrid

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Senior Counsel II

January 30, 2017

Via Electronic Filing

Honorable Kathleen H. Burgess, Secretary
New York State Department of Public Service
3 Empire State Plaza, 19th Floor
Albany, NY 12223-1350

Re: Case 06-M-0878 – Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisitions and other Regulatory Authorizations

Case 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition

Dear Secretary Burgess:

In accordance with the Public Service Commission's Orders in the above referenced proceedings,[1] enclosed please find copies of certain public financial information concerning National Grid plc and its energy companies' operations in New York and the United States. The enclosed information includes four documents:

(i) The Brooklyn Union Gas Company d/b/a National Grid New York, Consolidated Financial Statements for the years ended March 31, 2016, 2015 and 2014;

(ii) KeySpan Gas East Corporation d/b/a National Grid, Financial Statements for the years ended March 31, 2016, 2015, and 2014;

(iii) Niagara Mohawk Power Corporation, Financial Statements for the years ended March 31, 2016, 2015, and 2014; and

(iv) National Grid plc, Financial Information for the year ending March 31, 2016 (Exhibit 1).

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[1] Case 06-M-0878 – Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations, Order Authorizing Acquisition Subject to Conditions and Making Some Revenue Requirement Determinations For KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Issued and Effective September 17, 2007), p. 126; and Cases 06-M-0878 and 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition, Order Adopting Financial Protections for Niagara Mohawk Power Corporation (Issued and Effective March 28, 2008), App. 1, 6(b).

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Please contact me with any questions regarding this filing. Thank you.

Respectfully submitted,

/s/ Carlos A. Gavilondo

Carlos A. Gavilondo

cc: Allison Esposito
Denise Gerbsch

Enclosures

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Brooklyn Union Gas Company
d/b/a National Grid New York

Consolidated Financial Statements
For the years ended March 31, 2016, 2015, and 2014

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

To the Board of Directors
of The Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of The Brooklyn Union Gas Company (the Company), which comprise the consolidated balance sheets and statements of capitalization as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended March 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brooklyn Union Gas Company at March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 12, 2016

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating revenues	**$ 1,316,626**	$ 1,518,540	$ 1,624,511
Operating expenses:			
Purchased gas	**373,853**	598,698	662,944
Operations and maintenance	**506,224**	438,784	451,031
Depreciation and amortization	**94,634**	90,979	85,238
Other taxes	**199,615**	190,192	200,689
Total operating expenses	**1,174,326**	1,318,653	1,399,902
Operating income	**142,300**	199,887	224,609
Other income and (deductions):			
Interest on long-term debt	**(51,218)**	(48,918)	(49,022)
Other interest, including affiliate interest	**(2,958)**	1,732	(6,644)
Income from equity investments	**8,072**	16,995	16,439
Gain on sale of assets	**70,253**	-	-
Unrealized gains on investment in Dominion Midstream Partners, LP	**50,470**	-	-
Other income (deductions), net	**4,235**	(4,362)	(2,705)
Total other income (deductions), net	**78,854**	(34,553)	(41,932)
Income before income taxes	**221,154**	165,334	182,677
Income tax expense	**89,701**	66,863	77,746
Net income	**$ 131,453**	$ 98,471	$ 104,931

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Net income	**$ 131,453**	$ 98,471	$ 104,931
Other comprehensive income (loss):			
Unrealized gains (losses) on securities from equity investments	**91**	(85)	298
Total other comprehensive income (loss)	**91**	(85)	298
Comprehensive income	**$ 131,544**	$ 98,386	$ 105,229
Related tax (expense) benefit:			
Unrealized (gains) losses on securities from equity investments	**$ (62)**	$ 59	$ (208)
Total tax (expense) benefit	**$ (62)**	$ 59	$ (208)

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 131,453**	$ 98,471	$ 104,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**94,634**	90,979	85,238
Regulatory amortizations	**53,903**	38,867	38,289
Provision for deferred income taxes	**74,143**	52,966	58,408
Bad debt expense	**21,779**	8,526	3,266
(Income) loss from equity investments, net of dividends received	**1,660**	4,345	(919)
Gain on sale of assets	**(70,253)**	-	-
Unrealized gains on investment in Dominion Midstream Partners, LP	**(50,470)**	-	-
Amortization of debt discount	**1,855**	2,249	2,280
Net postretirement benefits expense (contributions)	**15,049**	16,339	(9,041)
Net environmental remediation payments	**(45,932)**	(42,577)	(27,698)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**97,722**	106,451	(118,457)
Inventory	**(21,104)**	(5,819)	5,057
Regulatory assets and liabilities, net	**(36,556)**	(631)	(36,773)
Derivative instruments	**(8,787)**	7,019	(4,109)
Prepaid and accrued taxes	**5,240**	(11,835)	(16,313)
Accounts payable and other liabilities	**12,753**	(5,562)	27,336
Other, net	**(5,847)**	4,497	(3,969)
Net cash provided by operating activities	**271,242**	364,285	107,526
Investing activities:			
Capital expenditures	**(441,352)**	(348,694)	(248,765)
Proceeds from sale of assets	**-**	-	13,877
Affiliated money pool investing and receivables/payables, net	**(356,685)**	(38,010)	(2,945)
Cost of removal	**(24,752)**	(20,676)	(27,495)
Insurance proceeds applied to capital expenditures	**-**	1,418	2,830
Other	**(394)**	3,379	(50)
Net cash used in investing activities	**(823,183)**	(402,583)	(262,548)
Financing activities:			
Proceeds from long-term debt	**994,269**	-	-
Affiliated money pool borrowing and receivables/payables, net	**(447,741)**	(2,233)	164,488
Parent loss tax allocation	**5,818**	17,461	-
Net cash provided by financing activities	**552,346**	15,228	164,488
Net increase (decrease) in cash and cash equivalents	**405**	(23,070)	9,466
Cash and cash equivalents, beginning of year	**3,829**	26,899	17,433
Cash and cash equivalents, end of year	**$ 4,234**	$ 3,829	$ 26,899
Supplemental disclosures:			
Interest paid	**$ (47,376)**	$ (48,952)	$ (61,303)
Income taxes (paid) refunded	**(3,790)**	2,505	(10,891)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**44,494**	27,910	5,418

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ **4,234**	$ 3,829
Accounts receivable	**305,287**	392,544
Allowance for doubtful accounts	**(37,252)**	(30,942)
Accounts receivable from affiliates	**1,768**	793
Intercompany money pool	**581,040**	118,055
Unbilled revenues	**61,323**	87,257
Inventory	**82,296**	61,192
Regulatory assets	**18,644**	9,314
Derivative instruments	**3,518**	3,086
Prepaid taxes	**34,591**	39,759
Other	**7,390**	9,204
Total current assets	**1,062,839**	694,091
Equity investments	**-**	72,416
Property, plant and equipment, net	**3,603,782**	3,214,812
Other non-current assets:		
Regulatory assets	**1,276,177**	1,184,939
Goodwill	**1,451,141**	1,451,141
Financial investments	**192,076**	50
Other	**22,954**	19,827
Total other non-current assets	**2,942,348**	2,655,957
Total assets	$ **7,608,969**	$ 6,637,276

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 138,249**	$ 126,122
Accounts payable to affiliates	**115,242**	61,236
Current portion of long-term debt	**810,500**	-
Taxes accrued	**16,181**	13,068
Customer deposits	**26,798**	28,764
Interest accrued	**13,309**	10,952
Regulatory liabilities	**64,289**	75,347
Intercompany money pool	**-**	394,472
Derivative instruments	**3,715**	11,119
Other	**17,233**	20,046
Total current liabilities	**1,205,516**	741,126
Other non-current liabilities:		
Regulatory liabilities	**404,937**	373,581
Asset retirement obligations	**14,145**	13,567
Deferred income tax liabilities, net	**903,955**	821,252
Postretirement benefits	**222,320**	182,188
Environmental remediation costs	**567,370**	542,411
Derivative instruments	**-**	951
Other	**85,367**	77,972
Total other non-current liabilities	**2,198,094**	2,011,922
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,981,090**	2,843,728
Long-term debt	**1,224,269**	1,040,500
Total capitalization	**4,205,359**	3,884,228
Total liabilities and capitalization	**$ 7,608,969**	$ 6,637,276

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2016	2015
Total shareholders' equity			**$ 2,981,090**	$ 2,843,728
Long-term debt:	Interest Rate	Maturity Date		
Unsecured Notes:				
Senior Note	5.60%	November 29, 2016	**400,000**	400,000
Senior Note	3.41%	March 10, 2026	**500,000**	-
Senior Note	4.50%	March 10, 2046	**500,000**	-
Gas Facilities Revenue Bonds:				
1993A and 1993B(1)	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996(1)	5.50%	January 1, 2021	**153,500**	153,500
2005A(1)	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B(1)	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
Total debt			**2,040,500**	1,040,500
Unamortized debt premium			**5,731**	-
Current portion of long-term debt			**810,500**	-
Long-term debt			**1,224,269**	1,040,500
Total capitalization			**$ 4,205,359**	$ 3,884,228

(1) During March 2016, the Company issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. The Company fully repaid these bonds during April 2016 and hence is classifying these bonds within current portion of long-term debt.

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Equity Investments	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 2,614,795**	**$ (410)**	**$ (410)**	**$ 8,267**	**$ 2,622,652**
Net income	-	-	-	-	-	104,931	104,931
Other comprehensive income:							
Unrealized gains on securities from equity investments, net of $208 tax expense	-	-	-	298	298	-	298
Total comprehensive income							105,229
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 2,614,795**	**$ (112)**	**$ (112)**	**$ 113,198**	**$ 2,727,881**
Net income	-	-	-		-	98,471	98,471
Other comprehensive loss:							
Unrealized losses on securities from equity investments, net of $59 tax benefit	-	-	-	(85)	(85)	-	(85)
Total comprehensive income							98,386
Parent loss tax allocation	-	-	17,461	-	-	-	17,461
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 2,632,256**	**$ (197)**	**$ (197)**	**$ 211,669**	**$ 2,843,728**
Net income	-	-	-		-	131,453	131,453
Other comprehensive income:							
Unrealized gains on securities from equity investments, net of $62 tax expense	-	-	-	91	91	-	91
Total comprehensive income							131,544
Parent loss tax allocation	-	-	5,818	-	-	-	5,818
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 2,638,074**	**$ (106)**	**$ (106)**	**$ 343,122**	**$ 2,981,090**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2016, 2015, and 2014.

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company") distributes natural gas to approximately 994,000 retail customers and transports natural gas to approximately 249,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company owned a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control was 20.4%. Because this interest provided KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounted for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate is included as income from equity investments in the accompanying consolidated statements of income.

On September 29, 2015, NETCO contributed its 19.4% interest in Iroquois to Dominion Midstream Partners, LP ("DM") in exchange for approximately 6.5 million common units (representing approximately an 8% interest) of DM. DM was formed to grow a portfolio of natural gas terminals, processing, storage and transportation assets. The transaction resulted in a gain on sale of assets of $70.3 million. The Company has elected the fair value option with respect to its investment in DM and as such, any changes in the fair value of these common units are recorded as unrealized gains on investment in Dominion Midstream Partners, LP in the accompanying consolidated statements of income. The Company's investment in DM is included within financial investments in the accompanying consolidated balance sheets.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through September 12, 2016, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2016, except as described in Note 14, "Subsequent Events."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the consolidated statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's allowed revenues per customer from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2016, 2015 and 2014 were $43.3 million, $35.9 million and $52.6 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying consolidated financial statements.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the consolidated financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016, 2015, or 2014.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $19.2 million and $11.5 million and gas in storage of $63.1 million and $49.7 million at March 31, 2016 and 2015, respectively.

Derivative Instruments

The Company uses derivative instruments (including purchase, options, and swaps) to manage commodity price risk. All derivative instruments are recorded in the accompanying consolidated balance sheets at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying consolidated balance sheets. There was no related cash collateral as of March 31, 2016 or 2015.

Fair Value Measurements

The Company measures derivative instruments and financial assets for which it has elected the fair value option at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2016, 2015 and 2014 were 2.3%, 2.5% and 2.6%, respectively. The average service life for each of the years ended March 31, 2016, 2015 and 2014 was 54 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $194.1 million and $194.4 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated statements of income as non-cash income in other income (deductions), net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.3 million, zero and $0.2 million and AFUDC related to debt of $1.9 million, $0.2 million and $0.5 million for the years ended March 31, 2016, 2015 and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015 and 2014 were 1.3%, 0.3% and 3.2%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2016 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2016 or 2015.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.
The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 13,567**	$ 12,205
Accretion expense	**681**	732
Liabilities settled	**(103)**	-
Revaluations to present values of estimated cash flows	**-**	630
Balance as of the end of the year	**$ 14,145**	$ 13,567

At March 31, 2015, the Company carried out a revaluation study that resulted in an upward revaluation in estimated costs related to the asset retirement obligations. These increases were due to changes in remediation cost and enhanced asset replacement programs.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status in the accompanying consolidated balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

Consolidation

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The new guidance eliminates entity specific consolidation guidance for limited partnerships. It also revises other aspects of the consolidation analysis, including how kick-out rights, fee arrangements and related parties are assessed. The new guidance, which requires either modified retrospective or full retrospective basis application, is effective for periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company has corrected the accounting by revising the prior period financial statements presented herein, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's open work orders within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $7.2 million (net of income taxes) was recorded, of which $1.7 million was recorded as a decrease to opening retained earnings (as of March 31, 2013), and $3.3 million and $2.2 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

In addition, during a review of the Company's accounting for its unbilled revenue accrual, management identified a gas costs deferral for the year ended March 31, 2014 that had not reversed into the subsequent fiscal year. An adjustment of $7.5 million (net of income taxes) was recorded as a decrease to net income with the correction recorded within purchased gas, for the year ended March 31, 2015.

Finally, the Company has corrected other immaterial adjustments. A cumulative adjustment of $0.1 million (net of income taxes) was recorded, of which $0.7 million was recorded as an increase to opening retained earnings (as of March 31, 2013) and $0.3 million and $0.5 million were recorded as a decrease to net income for the years ended March 31, 2015 and March 31, 2014, respectively.

The following table shows the amounts previously reported as revised:

	As Previously Reported (1)	Adjustments	As Revised
		(in thousands of dollars)	
Consolidated Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 1,518,784	$ (244)	$ 1,518,540
Total operating expenses	1,300,637	18,016	1,318,653
Operating income	218,147	(18,260)	199,887
Total other income (deductions)	(34,366)	(187)	(34,553)
Income before income taxes	183,781	(18,447)	165,334
Income tax expense	74,354	(7,491)	66,863
Net income	109,427	(10,956)	98,471
Consolidated Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 1,624,557	$ (46)	$ 1,624,511
Total operating expenses	1,396,165	3,737	1,399,902
Operating income	228,392	(3,783)	224,609
Total other income (deductions)	(41,168)	(764)	(41,932)
Income before income taxes	187,224	(4,547)	182,677
Income tax expense	79,592	(1,846)	77,746
Net income	107,632	(2,701)	104,931
Consolidated Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 373,839	$ (9,554)	$ 364,285
Net cash used in investing activities	(412,137)	9,554	(402,583)
Consolidated Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 108,361	$ (835)	$ 107,526
Net cash used in investing activities	(263,383)	835	(262,548)

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Consolidated Balance Sheet	**March 2015**		**March 2015**
Total current assets	$ 705,938	$ (11,847)	$ 694,091
Property, plant, and equipment, net	3,227,937	(13,125)	3,214,812
Total assets	6,662,248	(24,972)	6,637,276
Total current liabilities	742,323	(1,197)	741,126
Total other non-current liabilities	2,021,051	(9,129)	2,011,922
Total liabilities and capitalization	6,662,248	(24,972)	6,637,276
Retained Earnings			
March 31, 2015	226,316	(14,647)	211,669
March 31, 2014	116,889	(3,691)	113,198
March 31, 2013	9,257	(990)	8,267
Shareholders' equity			
March 31, 2015	2,858,375	(14,647)	2,843,728
March 31, 2014	2,731,571	(3,690)	2,727,881
March 31, 2013	2,623,640	(988)	2,622,652

[1] During 2016, the Company early adopted ASU 2015-17 “Balance Sheet Classification of Deferred Taxes” retrospectively (as discussed in Note 10, “Income Taxes”). This change in accounting policy resulted in the reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying consolidated balance sheets:

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 198**	$ 8,984
Gas costs adjustment	**16,722**	-
Rate adjustment mechanism	**1,568**	-
Other	**156**	330
Total	**18,644**	9,314
Non-current:		
Environmental response costs	**770,589**	738,119
Postretirement benefits	**367,057**	341,974
Temperature control/interruptible sharing	**82,676**	48,710
Other	**55,855**	56,136
Total	**1,276,177**	1,184,939
Regulatory liabilities		
Current:		
Energy efficiency	**38,936**	41,879
Gas costs adjustment	**-**	5,471
Revenue decoupling mechanism	**19,561**	11,586
Temporary state assessment	**3,188**	13,330
Other	**2,604**	3,081
Total	**64,289**	75,347
Non-current:		
Cost of removal	**194,051**	194,425
Delivery rate adjustment	**44,974**	44,974
Excess earnings	**88,082**	88,082
Other	**77,830**	46,100
Total	**404,937**	373,581
Net regulatory assets	**$ 825,595**	$ 745,325

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of $5 million beginning January 1, 2008, which increased incrementally by $5 million in rate years two through five; aggregating to a total of approximately $75 million over the term of the rate agreement. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $25 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances. On June 5, 2015, the Company submitted a petition to the NYPSC to increase its existing SIR Surcharge by $37.5 million annually and remaining in effect until new base rates are set. The proposed increase in the SIR Surcharge will allow the Company to recover some of its environmental remediation costs and minimize future bill impacts for customers. On October 19, 2015, the NYPSC issued an order authorizing the Company to increase its annual SIR Surcharge by $37.5 million annually, commencing November 1, 2015.

Derivative instruments: The Company evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of the Company's energy efficiency programs as approved by the NYPSC.

Environmental response costs: Represents deferred costs associated with the Company's shares of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). During the primary term of the rate plan (2008-2012), if the ROE in the applicable rate year exceeded 10.5%, the Company was required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, the threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism is calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: Represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are shared 90% by ratepayers and 10% by shareholders. This regulatory asset represents the ratepayer share of the differences.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the

Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2016, the Company over-collected on these costs. The Company is required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative instruments, cost of removal, environmental response costs, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

Rate Case Filing

On January 29, 2016, the Company filed to adjust its base gas rates, which, if adopted, would be effective from January 1, 2017. The filing seeks to increase gas delivery base revenues. On June 17, 2016, the Company filed for a month-extension in the suspension period in the proceedings with a make whole provision, such that new rates would become effective February 1, 2017. On July 21, 2016, to allow additional time for the parties to conduct settlement discussions and finalize a joint proposal with KeySpan Gas East Corporation ("KeySpan Gas East"), the Company requested an additional one-month extension in the suspension period, subject to a make whole, such that new rates would become effective no later than March 1, 2017.

On September 7, 2017, the Company filed a Joint Proposal establishing a three year rate plan for the Company and KeySpan Gas East, beginning January 1, 2017 and ending December 31, 2019. The Joint Proposal is supported by several parties, including Department of Public Service Staff and the City of New York. It is expected that the NYPSC will issue an order on the Joint Proposal in December or January and that new rates would go into effect in either January or February. The Joint Proposal includes a make whole provision that, if approved, is designed to ensure the Company and KeySpan Gas East are restored to the same financial position by December 31, 2017 as if new rates went into effect beginning January 1, 2017.

General Rate Case

On June 13, 2013, the NYPSC approved a rate plan extension covering the Company's 2013 and 2014 rate years. The Company's revenue requirements for both years have been modified as follows: (i) there is no change in base delivery rates, other than those previously approved by the NYPSC in the rate plan extension, (ii) the allowed ROE decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure increased from 45% to 48%.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014, the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes a $13.3 million regulatory liability.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released Overland's audit report publicly and adopted the majority of recommendations in the report. The audit report found that the Company, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The Company filed its plan to implement the audit recommendations with the NYPSC on May 19, 2016. On May 26, 2016, the NYPSC issued a Notice Seeking Comments on the draft customer service recommendations that were not addressed in the previous order. The Company filed comments on the draft recommendations on July 20, 2016.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these consolidated financial statements, the Company cannot predict the outcome of this operational audit.

Capital Reconciliation Mechanism Petition

In June 2015, the Company submitted a petition to the NYPSC requesting a modification to the Capital Expenditures and Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("Capital Reconciliation Mechanism") in its current rate plan. The Capital Reconciliation Mechanism is a downward only net utility plant reconciliation mechanism that permits a cumulative, two-year reconciliation for the two years ended December 31, 2014 and annual reconciliations thereafter. While the Company implemented and largely completed its capital program for 2013 and 2014, its ability to launch certain programs was hampered by SuperStorm Sandy and its aftermath. The impact of these delays and other related issues was a deferred liability, which was offset against the regulatory asset recorded in relation to the primary term of the rate plan. The Company requested a modification to the Capital Reconciliation Mechanism to extend the reconciliation period for two years (calendar years 2015 and 2016) to complete more capital projects and facilitate the Company's plan to invest in its distribution system infrastructure. On October 19, 2015, the NYPSC issued an order granting the requested two year extension to the reconciliation period.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Plant and machinery	**$ 4,047,563**	$ 3,787,992
Land and buildings	**188,580**	190,530
Assets in construction	**345,534**	228,037
Software and other intangibles	**124,399**	124,399
Total property, plant and equipment	**4,706,076**	4,330,958
Accumulated depreciation and amortization	**(1,102,294)**	(1,116,146)
Property, plant and equipment, net	**$ 3,603,782**	$ 3,214,812

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") are as follows:

	March 31, 2016	March 31, 2015
	(in thousands)	
Gas option contracts	**7,450**	2,220
Gas purchase contracts	**13,979**	17,564
Gas swap contracts	**23,786**	18,252
Total	**45,215**	38,036

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	Asset Derivatives				Liability Derivatives			
	March 31,				March 31,			
	2016		2015		**2016**		2015	
	(in thousands of dollars)				*(in thousands of dollars)*			
Current assets:				Current liabilities:				
Rate recoverable contracts:				Rate recoverable contracts:				
Gas option contracts	**$**	**194**	$ 36	Gas option contracts	**$**	**222**	$ 290	
Gas purchase contracts		**224**	1,478	Gas purchase contracts		**1,216**	4,547	
Gas swap contracts		**3,100**	$ 1,572	Gas swap contracts		**2,277**	$ 6,282	
		3,518	3,086			**3,715**	11,119	
Other non-current assets:				Other non-current liabilities:				
Rate recoverable contracts:				Rate recoverable contracts:				
Gas purchase contracts		**-**	-	Gas purchase contracts		**-**	951	
		-	-			**-**	951	
Total	**$**	**3,518**	$ 3,086	Total	**$**	**3,715**	$ 12,070	

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. The Company had no derivative instruments not subject to rate recovery as of March 31, 2016 and 2015.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by the Finance Committee to National Grid plc's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to both the NGUSA Board of Directors and the Finance Committee.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments, applicable payables and receivables, and instruments that are subject to master netting agreements, was an asset of $2.2 million and a liability of $8.7 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $0.7 million and $5.3 million, respectively. The Company had no collateral posted for these instruments at March 31, 2016 or 2015. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $0.8 million and $5.4 million additional collateral to its counterparties at March 31, 2016 and 2015, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 194	$ -	$ 194	$ -	$ -	$ 194
Gas purchase contracts	224	-	224	-	-	224
Gas swap contracts	3,100	-	3,100	-	-	3,100
Total	$ 3,518	$ -	$ 3,518	$ -	$ -	$ 3,518

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 222	$ -	$ 222	$ -	$ -	$ 222
Gas purchase contracts	1,216	-	1,216	-	-	1,216
Gas swap contracts	2,277	-	2,277	-	-	2,277
Total	$ 3,715	$ -	$ 3,715	$ -	$ -	$ 3,715

March 31, 2015
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 36	$ -	$ 36	$ -	$ -	$ 36
Gas purchase contracts	1,478	-	1,478	-	-	1,478
Gas swap contracts	1,572	-	1,572	-	-	1,572
Total	$ 3,086	$ -	$ 3,086	$ -	$ -	$ 3,086

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 290	$ -	$ 290	$ -	$ -	$ 290
Gas purchase contracts	5,498	-	5,498	-	-	5,498
Gas swap contracts	6,282	-	6,282	-	-	6,282
Total	$ 12,070	$ -	$ 12,070	$ -	$ -	$ 12,070

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 194	$ 194
Gas purchase contracts	-	6	218	224
Gas swap contracts	-	3,100	-	3,100
Investment in Dominion Midstream Partners, LP	-	192,026	-	192,026
Total	-	195,132	412	195,544
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	222	222
Gas purchase contracts	-	82	1,134	1,216
Gas swap contracts	-	2,277	-	2,277
Total	-	2,359	1,356	3,715
Net assets (liabilities)	$ -	$ 192,773	$ (944)	$ 191,829

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 36	$ 36
Gas purchase contracts	-	17	1,461	1,478
Gas swap contracts	-	1,572	-	1,572
Total	-	1,589	1,497	3,086
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	290	290
Gas purchase contracts	-	84	5,414	5,498
Gas swap contracts	-	6,282	-	6,282
Total	-	6,366	5,704	12,070
Net liabilities	$ -	$ (4,777)	$ (4,207)	$ (8,984)

Derivative instruments: The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Investment in Dominion Midstream Partners, LP: The Company's Level 2 Investment in DM is valued based on Level 1 quoted market prices for DM common units, combined with a discount to the quoted market price which is calculated using Level 2 inputs, to reflect restrictions on the transfer of the units and resulting lack of marketability.

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (4,207)**	$ (217)
Total gains or losses included in regulatory assets and liabilities	**1,645**	(10,423)
Settlements	**1,618**	6,433
Balance as of the end of the year	**$ (944)**	$ (4,207)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2016, 2015, or 2014.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2016			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ -	$ (1,134)	$ (1,134)	Discounted Cash Flow	Forward Curve (A)	$1.891 - $1.891/dth
Gas/Power	Cross commodity contracts	218	-	218	Discounted Cash Flow	Forward Curve	$14.162 - $251.197/dth
Gas	Option contracts	194	(222)	(28)	Discounted Cash Flow	Implied Volatility	34% - 38%
	Total	$ 412	$ (1,356)	$ (944)			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 1,161	$ (5,414)	$ (4,253)	Discounted Cash Flow	Forward Curve (A)	$0.96 - $11.47/dth
Gas/Power	Cross commodity contracts	300	-	300	Discounted Cash Flow	Forward Curve	$23.61 - $378.51/dth
Gas	Option contracts	36	(290)	(254)	Discounted Cash Flow	Implied Volatility	34% - 41%
	Total	$ 1,497	$ (5,704)	$ (4,207)			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivative instruments are forward commodity prices, implied volatility and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $2.1 and $1.2 billion, respectively.

All other financial instruments in the accompanying consolidated balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2016, 2015, and 2014, the Company made contributions of approximately $24.6 million, $22.8 million, and $45.6 million, respectively, to the Plans.

The Plans' assets are commingled and cannot be allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying consolidated balance sheets. Pension and PBOP expenses are included within operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 979,081**	$ 1,055,558
PBOP	**946,860**	985,669
	$ 1,925,941	$ 2,041,227

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2016, 2015, and 2014 are as follows:

	Years Ended March 31,		
	2016	**2015**	2014
		(in thousands of dollars)	
Pension	**$ 15,625**	$ 15,656	$ 15,634
PBOP	**19,186**	19,186	19,186
	$ 34,811	$ 34,842	$ 34,820

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying consolidated statements of income of $1.6 million, $1.1 million, and $1 million, respectively, for matching contributions.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $11.9 million and $10.5 million, respectively.

9. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2017	$ 810,500
2018	-
2019	-
2020	-
2021	125,000
Thereafter	1,105,000
Total	$ 2,040,500

The Company's 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 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 the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2016 and 2015, the Company was in compliance with all such covenants.

Unsecured Notes

In March 2016, the Company issued $500 million of unsecured senior long-term debt at 3.407% with a maturity date of March 10, 2026 and $500 million of unsecured senior long-term debt at 4.504% with a maturity date of March 10, 2046.

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2016 and 2015, $640.5 million of GFRB were outstanding; $230 million of which are variable-rate, auction rate bonds. The GFRB currently in auction rate mode are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rates and the senior unsecured rating of the Company's bonds. The effect of the failed auctions on interest on long-term debt was not material for the years ended March 31, 2016, 2015, or 2014.

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2016 and 2015, the Company was in compliance with the utility capital structure required by the NYPSC.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share") subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State ("NYS"). On July 8, 2011, the Company issued the Golden Share with a par value of $1.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 9,741**	$ 9,486	$ 10,596
State	**5,817**	4,411	8,742
Total current tax expense (benefit)	**15,558**	13,897	19,338
Deferred tax expense (benefit):			
Federal	**61,010**	43,764	49,362
State	**14,044**	10,113	9,957
Total deferred tax expense (benefit)	**75,054**	53,877	59,319
Amortized investment tax credits (1)	**(911)**	(911)	(911)
Total deferred tax expense (benefit)	**74,143**	52,966	58,408
Total income tax expense	**$ 89,701**	$ 66,863	$ 77,746

(1) Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016, 2015, and 2014 are 40.6%, 40.4%, and 42.6%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Computed tax	**$ 77,403**	$ 57,866	$ 63,936
Change in computed taxes resulting from:			
Investment tax credit	**(911)**	(911)	(911)
State income tax, net of federal benefit	**12,910**	9,440	12,155
Temporary differences flowed through	**-**	-	1,404
Other items, net	**299**	468	1,162
Total	**12,298**	8,997	13,810
Total income tax expenses	**$ 89,701**	$ 66,863	$ 77,746

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and New York unitary state income tax returns. The Company has joint and several liability for any potential assessments against the consolidated group.

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the fiscal year ended March 31, 2017. Likewise there was no material change in the Company's deferred tax liability for the increase in the Metropolitan Transportation Authority surcharge from 25.6% to 28%.

On August 26, 2016, Internal Revenue Service ("IRS") issued Revenue Procedure 2016-48 that enables the Company to claim prior year's unclaimed bonus depreciation in its federal income tax return for the period ended March 31, 2016. As a result of the adoption of this procedure, the Company will increase its other long term liability and reduce its deferred tax liability by $4.6 million in the next fiscal year.

Deferred Tax Components

	March 31,	
	2016	2015
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 245,785**	$ 259,968
Future federal benefit on state taxes	**46,449**	40,300
Net operating losses	**63,204**	1,874
Postretirement benefits and other employee benefits	**134,572**	115,245
Regulatory liabilities - other	**136,996**	140,693
Other items	**45,018**	39,981
Total deferred tax assets (1)	**672,024**	598,061
Deferred tax liabilities:		
Property related differences	**886,031**	786,264
Regulatory assets - environmental response costs	**334,330**	344,783
Regulatory assets - postretirement benefits	**151,494**	135,724
Regulatory assets - other	**92,868**	89,293
Other items	**109,264**	60,346
Total deferred tax liabilities	**1,573,987**	1,416,410
Net deferred income tax liabilities	**901,963**	818,349
Deferred investment tax credits	**1,992**	2,903
Deferred income tax liabilities, net	**$ 903,955**	$ 821,252

(1) The Company established a valuation allowance for deferred tax assets in the amount of $0.9 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax assets and non-current deferred income tax liabilities, net by $26.7 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal	NYS
	(in thousands of dollars)	
3/31/2029	$ 35,906	$ -
3/31/2033	12,085	-
3/31/2035	4,173	108,620
3/31/2036	161,600	103,820

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $76.7 million, $72.3 million, and $73.4 million, respectively, of which $$0.8 million, $0.8 million, and zero, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying consolidated balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 72,315**	$ 73,428	$ 113,030
Gross increases - tax positions in prior periods	**-**	1,331	2,046
Gross decreases - tax positions in prior periods	**(4,057)**	(13,988)	(16,622)
Gross increases - current period tax positions	**8,477**	11,544	13,727
Settlements with tax authorities	**-**	-	(38,753)
Balance as of the end of the year	**$ 76,735**	$ 72,315	$ 73,428

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $4.7 million and $3.6 million, respectively. During the years ended March 31, 2016, 2015, and 2014, the Company recorded interest expense of $1.2 million, $1.4 million, and $3.9 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net in the accompanying consolidated statements of income. During year ended March 31, 2016 the Company recorded a tax penalty expense of $0.2 million. Immaterial tax penalties were recorded during the year ended March 31, 2015 and none during the year ended March 31, 2014

The Company is included in NGNA and subsidiaries' administrative appeal with the IRS related to the issues disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008 and March 31, 2009. During the period, the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company's NYS income tax returns for the years ended August 24, 2007 through March 31, 2008. In June 2016, the Company received a preliminary audit report with proposed decreases to state taxable income primarily related to transition property depreciation deduction. The Company conducted an internal review of the audit report, agreed with its findings and will enter into settlement discussions with the state of New York in the next fiscal year.

The income tax returns for the years ended March 31, 2009 through March 31, 2015 remain subject to examination by the state of New York.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, excluding the impact of the potential settlement with the state of New York, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

The following table indicates the earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	**Tax Year**
Federal	March 31, 2010
New York	August 24, 2007

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

In March of 2010, the Gowanus Canal was named to the United States Environmental Protection Agency (“EPA”) Superfund List. The Company’s predecessor owned three historical manufactured gas plants located along the Canal. In September of 2013, the EPA issued its Record of Decision, which prescribes the remedy for the Canal. The EPA estimates the entire remedy will cost $506 million. On March 21, 2014, the EPA issued a Unilateral Administrative Order to the Company and more than twenty-five other industrial potentially responsible parties (“PRPs”), to commence the design of the remedy. Although no estimate for the design of the remedy was given, an estimate of 10% of remedy cost is typically used when estimating design costs. The Company is negotiating with the other PRPs to share work and costs.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation (“DEC”) for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $45.9 million, $42.6 million, and $27.7 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized its environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $567.4 million and $542.4 million at March 31, 2016 and 2015, respectively. The Company’s environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2016 and 2015 was $684.3 million and $658.5 million, respectively. These costs are expected to be incurred over approximately 45 years, and the discounted amounts have been recorded as reserves in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2016 and 2015, the Company has recorded net environmental regulatory assets of $761 million and $736.4 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately $12.2 million, $11.9 million, and $11.5 million the years ended March 31, 2016, 2015, and 2014, respectively. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statements of income was approximately $4.1 million, $4 million, and $3.1 million for the years ended March 31, 2016, 2015, and 2014, respectively.

The future minimum lease payments for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ 12,756
2018	13,426
2019	14,139
2020	14,900
2021	15,729
Thereafter	69,397
Total	$ 140,347

Purchase Commitments

The Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Gas	Capital Expenditures
2017	$ 192,126	$ 12,922
2018	156,860	9,830
2019	129,653	-
2020	91,784	-
2021	82,800	-
Thereafter	531,982	-
Total	$ 1,185,205	$ 22,752

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately $69.1 million.

In December 2014, NGUSA reached a final settlement with its insurers, of which the Company's allocated portion was $52.2 million (inclusive of advance payments of $29.2 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of $2.6 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying consolidated statements of income.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal, and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
KeySpan Corporation	**$ -**	$ -	**$ 72,621**	$ 35,323
KeySpan Gas East Corporation	**-**	-	**4,645**	6,005
National Grid Engineering Services	**1,619**	588	**-**	-
National Grid Generation LLC	**147**	-	**-**	-
NGUSA Service Company	**-**	-	**34,320**	17,264
Niagara Mohawk Power Corporation	**-**	180	**469**	-
Other	**2**	25	**3,187**	2,644
Total	**$ 1,768**	$ 793	**$ 115,242**	$ 61,236

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and invest funds. Borrowings from the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the Regulated and Unregulated Money Pool Agreements. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had short-term intercompany money pool investments of $451.2 million and a short-term intercompany money pool payable of $394.5 million at March 31, 2016 and 2015, respectively. NETCO had short-term intercompany money pool investments of $129.8 million and $118.1 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7%, 0.4%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $374.3 million, $288.8 million, and $243.1 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these consolidated financial statements. The estimated effect on net income would be $3.7 million, $5.1 million, and $5.4 million before taxes and $2.2 million, $3.1 million, and $3.5 million after taxes, for each of the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.

14. SUBSEQUENT EVENTS

During March 2016, the Company issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. The Company fully repaid these bonds during April 2016.

The following table shows the bonds that have been fully paid subsequent to March 2016:

	Interest Rate	Maturity Date	**March 31, 2016**
Gas Facilities Revenue Bonds:			
1993A and 1993B	6.37%	April 1, 2020	**75,000**
1996	5.50%	January 1, 2021	**153,500**
2005A	4.70%	February 1, 2024	**82,000**
1991A and 1991B	6.95%	July 1, 2026	**100,000**
Total debt			**410,500**

nationalgrid

KeySpan Gas East Corporation
d/b/a National Grid

Financial Statements
For the years ended March 31, 2016, 2015, and 2014

KEYSPAN GAS EAST CORPORATION

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Independent Auditor's Report

To the Board of Directors
of KeySpan Gas East Corporation

We have audited the accompanying financial statements of KeySpan Gas East Corporation (the Company), which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of income, cash flows, capitalization, and changes in shareholders' equity for each of the three years in the period ended March 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KeySpan Gas East Corporation at March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 29, 2016

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating revenues	**$ 933,809**	$ 1,080,181	$ 1,080,845
Operating expenses:			
Purchased gas	**258,066**	434,050	438,931
Operations and maintenance	**303,540**	290,431	321,896
Depreciation and amortization	**72,963**	67,765	60,580
Other taxes	**143,591**	141,269	134,695
Total operating expenses	**778,160**	933,515	956,102
Operating income	**155,649**	146,666	124,743
Other deductions:			
Interest on long-term debt	**(34,862)**	(34,862)	(34,828)
Other interest, including affiliate interest	**(20,101)**	(22,317)	(13,083)
Other deductions, net	**(3,648)**	(5,779)	(4,466)
Total other deductions, net	**(58,611)**	(62,958)	(52,377)
Income before income taxes	**97,038**	83,708	72,366
Income tax expense	**41,409**	34,391	27,207
Net income	**$ 55,629**	$ 49,317	$ 45,159

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 55,629**	$ 49,317	$ 45,159
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**72,963**	67,765	60,580
Regulatory amortizations	**45,106**	55,211	46,365
Provision for deferred income taxes	**34,421**	10,398	38,666
Bad debt expense	**17,491**	13,009	13,401
Net postretirement benefits expense (contributions)	**18,779**	7,606	(5,912)
Net environmental remediation payments	**(10,283)**	(14,404)	(38,333)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**107,086**	57,206	(58,327)
Inventory	**2,099**	(8,731)	16,483
Regulatory assets and liabilities, net	**209**	55,350	(26,498)
Derivative instruments	**20,838**	(3,164)	(2,955)
Prepaid and accrued taxes	**(7,679)**	29,550	(9,213)
Accounts payable and other liabilities	**(1,455)**	(3,701)	(34,240)
Other, net	**2,182**	9,958	8,384
Net cash provided by operating activities	**357,386**	325,370	53,560
Investing activities:			
Capital expenditures	**(255,346)**	(225,247)	(201,192)
Cost of removal	**(8,992)**	(8,357)	(17,133)
Insurance proceeds applied to capital expenditures	**-**	438	14,278
Net cash used in investing activities	**(264,338)**	(233,166)	(204,047)
Financing activities:			
Affiliated money pool borrowing and receivables/payables, net	**(112,228)**	(97,700)	155,897
Parent loss tax allocation	**18,022**	-	-
Net cash (used in) provided by financing activities	**(94,206)**	(97,700)	155,897
Net (decrease) increase in cash and cash equivalents	**(1,158)**	(5,496)	5,410
Cash and cash equivalents, beginning of year	**3,187**	8,683	3,273
Cash and cash equivalents, end of year	**$ 2,029**	$ 3,187	$ 8,683
Supplemental disclosures:			
Interest paid	**$ (34,822)**	$ (44,015)	$ (43,599)
Income taxes paid	**(2,574)**	(11,754)	(1,039)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**24,481**	13,575	6,565

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,029**	$ 3,187
Accounts receivable	**191,503**	268,185
Allowance for doubtful accounts	**(30,272)**	(19,205)
Accounts receivable from affiliates	**6,417**	25,816
Unbilled revenues	**41,782**	78,610
Inventory	**33,878**	35,977
Regulatory assets	**371**	-
Derivative instruments	**1,335**	12,529
Other	**5,061**	6,734
Total current assets	**252,104**	411,833
Property, plant and equipment, net	**2,877,480**	2,685,325
Other non-current assets:		
Regulatory assets	**574,720**	552,376
Goodwill	**1,018,407**	1,018,407
Derivative instruments	**1,533**	14,834
Other	**4,251**	4,162
Total other non-current assets	**1,598,911**	1,589,779
Total assets	**$ 4,728,495**	$ 4,686,937

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 58,613**	$ 61,940
Accounts payable to affiliates	**25,612**	9,964
Current portion of long-term debt	**100,000**	-
Taxes accrued	**13,006**	29,892
Customer deposits	**14,990**	14,310
Interest accrued	**17,280**	16,723
Regulatory liabilities	**48,510**	60,783
Intercompany money pool	**379,839**	527,114
Derivative instruments	**1,513**	5,170
Other	**24,423**	15,498
Total current liabilities	**683,786**	741,394
Other non-current liabilities:		
Regulatory liabilities	**417,869**	321,572
Asset retirement obligations	**14,497**	13,836
Deferred income tax liabilities, net	**686,148**	649,228
Postretirement benefits	**243,752**	249,639
Environmental remediation costs	**59,881**	65,520
Other	**30,127**	26,964
Total other non-current liabilities	**1,452,274**	1,326,759
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,092,435**	2,018,784
Long-term debt	**500,000**	600,000
Total capitalization	**2,592,435**	2,618,784
Total liabilities and capitalization	**$ 4,728,495**	$ 4,686,937

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2016	2015
Total shareholders' equity			**$ 2,092,435**	$ 2,018,784
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	5.60%	November 29, 2016	**100,000**	100,000
Senior Note	5.82%	April 1, 2041	**500,000**	500,000
Total long-term debt			**600,000**	600,000
Current portion of long-term debt			**100,000**	-
Long-term debt			**500,000**	600,000
Total capitalization			**$ 2,592,435**	$ 2,618,784

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 1,880,389**	**$ 43,919**	**$ 1,924,308**
Net income	-	-	-	45,159	45,159
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 1,880,389**	**$ 89,078**	**$ 1,969,467**
Net income	-	-	-	49,317	49,317
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 1,880,389**	**$ 138,395**	**$ 2,018,784**
Net income	-	-	-	55,629	55,629
Parent loss tax allocation	-	-	18,022	-	18,022
Balance as of March 31, 2016	**$ -**	**$ -**	**$ 1,898,411**	**$ 194,024**	**$ 2,092,435**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2016, 2015, and 2014.

The accompanying notes are an integral part of these financial statements.

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

KeySpan Gas East Corporation d/b/a National Grid ("the Company") distributes natural gas to approximately 517,000 retail customers and transports natural gas to approximately 64,000 customers in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 29, 2016, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's allowed revenues per customer from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2016, 2015, and 2014 were $13.5 million, $13.1 million, and $12 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016, 2015, or 2014.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $6.5 million and $4.5 million and gas in storage of $27.4 million and $31.5 million at March 31, 2016 and 2015, respectively.

Derivative Instruments

The Company uses derivative instruments (including forwards, options, and swaps) to manage commodity price risk. All derivative instruments are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying balance sheets. There was no related cash collateral as of March 31, 2016 or 2015.

Fair Value Measurements

The Company measures derivative instruments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2016, 2015, and 2014 were 2%, 2.2%, and 2% respectively. The average service life for each of the years ended March 31, 2016, 2015, and 2014 was 35 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $44.5 million and $48.2 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other deductions, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of zero for each of the years ended March 31, 2016, 2015, and 2014 and AFUDC related to debt of $0.4 million, zero, and $0.4 million for the years ended March 31, 2016, 2015, and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015, and 2014 were 0.7%, 0.3%, and 0.7%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2016 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2016 or 2015.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31, 2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 13,836**	$ 14,078
Accretion expense	**769**	845
Liabilities settled	**(108)**	-
Revaluations to present values of estimated cash flows	**-**	(1,087)
Balance as of the end of the year	**$ 14,497**	$ 13,836

At March 31, 2015, the Company carried out a revaluation study that resulted in a downward revaluation in estimated costs related to the asset retirement obligations. These decreases were due to changes in remediation cost and enhanced asset replacement programs.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by revising the prior period financial statements, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's accounting related to a settlement with the New York State Department of Taxation and Finance's examination of the Company's corporate income tax returns for the years ended December 31, 2000 through 2002, the Company identified an error that resulted in a correction to deferred income taxes of $4.4 million which was recorded as an increase to opening retained earnings (as of March 31, 2013).

In addition, during a review of the Company's open work orders sitting within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $1.6 million (net of income taxes) was recorded, of which $0.3 was recorded as a decrease to opening retained earnings (as of March 31, 2013) and $0.5 million and $0.8 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

Further, management also identified an error in the amount of capital-related accruals included in accounts payable, which resulted in an overstatement in net cash provided by operating activities and net cash used in investing activities of $3.5 million for the year ended March 31, 2015 and an understatement in net cash provided by operating activities and net cash used in investing activities of $13.5 million for the year ended March 31, 2014.

Finally, the Company has corrected other immaterial items. A cumulative adjustment of $1.3 million (net of income taxes) was recorded, of which $0.7 was recorded as an increase to opening retained earnings (as of March 31, 2013) and $0.1 million and $0.5 million were recorded as an increase to net income for the years ended March 31, 2015 and 2014, respectively.

The following table shows the amounts previously reported as revised:

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 1,080,067	$ 114	$ 1,080,181
Total operating expenses	932,732	783	933,515
Operating income	147,335	(669)	146,666
Total other deductions, net	(62,994)	36	(62,958)
Income before income taxes	84,341	(633)	83,708
Income tax expense	34,649	(258)	34,391
Net income	49,692	(375)	49,317
Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 1,080,682	$ 163	$ 1,080,845
Total operating expenses	954,768	1,334	956,102
Operating income	125,914	(1,171)	124,743
Other deductions, net	(53,030)	653	(52,377)
Income before income taxes	72,884	(518)	72,366
Income tax expense	27,417	(210)	27,207
Net income	45,467	(308)	45,159
Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 329,683	$ (4,313)	$ 325,370
Net cash used in investing activities	(237,479)	4,313	(233,166)
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 41,402	$ 12,158	$ 53,560
Net cash used in investing activities	(191,889)	(12,158)	(204,047)

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Balance Sheet	**March 2015**		**March 2015**
Property, plant, and equipment, net	$ 2,687,958	$ (2,633)	$ 2,685,325
Total current liabilities	742,255	(861)	741,394
Total other non-current liabilities	1,332,619	(5,860)	1,326,759
Retained Earnings			
March 31, 2015	134,307	4,088	138,395
March 31, 2014	84,615	4,463	89,078
March 31, 2013	39,148	4,771	43,919
Shareholders' equity			
March 31, 2015	2,014,696	4,088	2,018,784
March 31, 2014	1,965,004	4,463	1,969,467
March 31, 2013	1,919,537	4,771	1,924,308

[1] During 2016, the Company early adopted ASU 2015-17 “Balance Sheet Classification of Deferred Taxes” retrospectively (as discussed in Note 10, “Income Taxes”). This change in policy resulted in reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets:

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Regulatory assets		
Current:		
Temporary state assessment	**$ 238**	$ -
Other	**133**	-
Total	**371**	-
Non-current:		
Environmental response costs	**277,448**	269,590
Postretirement benefits	**123,819**	148,485
Property taxes	**77,011**	53,350
Rate mitigation	**30,689**	28,662
Temperature control/interruptible sharing	**42,438**	33,623
Other	**23,315**	18,666
Total	**574,720**	552,376
Regulatory liabilities		
Current:		
Derivative instruments	**1,355**	22,193
Energy efficiency	**7,054**	4,508
Gas costs adjustment	**16,264**	2,733
Revenue decoupling mechanism	**23,837**	25,241
Temporary state assessment	**-**	4,501
Other	**-**	1,607
Total	**48,510**	60,783
Non-current:		
Capital tracker	**26,204**	26,204
Carrying charges	**78,678**	64,498
Cost of removal	**44,535**	48,152
Delivery rate adjustment	**82,870**	82,870
Environmental response costs	**96,121**	46,520
Property taxes	**25,947**	4,081
Other	**63,514**	49,247
Total	**417,869**	321,572
Net regulatory assets	**$ 108,712**	$ 170,021

Capital tracker: During the primary term of the rate plan (2008–2012), which remains in effect until modified by the NYPSC, the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The existing CSC deferral mechanism was eliminated as of January 1, 2015 and was replaced by the Leak Prone Pipe and Neighborhood Capital expansion capital tracker approved on December 15, 2015. The Company records a carrying charge on the net deferral balance using the weighted average cost of capital.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of $10 million beginning January 1, 2009, which increased incrementally by $10 million and aggregating to approximately $100 million over the term of the rate agreement. In its order issued and effective November 28, 2012, the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $40 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances.

Derivative instruments: The Company evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of the Company's energy efficiency programs as approved by the NYPSC.

Environmental response costs: The regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual SIR costs.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: Represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

Property taxes: Represents 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from, or payment to, the Company's customers.

Rate mitigation: The existing rate agreement provides for the establishment of a regulatory asset for the deferral of amortization adjustments, which will be built up at a rate of $2 million per year with an offset to operations and maintenance expense. The NYPSC recognized a negotiated five year revenue increase settlement, aggregating $625.7 million. As part of the NGUSA and KeySpan merger ("Grid merger") settlement these revenues were eliminated with rate mitigators. Of these mitigators, the NYPSC deferred recovery of certain deferred costs, reflected net synergy savings of the Grid merger, and modified the overall allowed rate of return.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are shared 90% by ratepayers and 10% by shareholders. This regulatory asset represents the ratepayer share of the differences.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2016, the Company over-collected on these costs. The Company is required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative instruments, cost of removal, environmental response costs, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

The Company has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed return on equity of 9.8% with a 45% equity ratio in the capital structure. On January 29, 2016, the Company filed to adjust its base gas rates, which, if adopted, would be effective from January 1, 2017. The Company's filing seeks to increase gas delivery base revenues by approximately $142 million. On June 17, 2016 the Company filed for a month-extension in the suspension period in the proceedings with a make whole provision, such that new rates would become effective February 1, 2017. On July 21, 2016, to allow additional time for the parties to conduct settlement discussions and finalize a joint proposal, the Company requested an additional one-month extension in the suspension period, subject to a make whole, such that new rates would now become effective March 1, 2017.

Capital Investment

On June 13, 2014, the Company filed a petition with the NYPSC to implement a three year capital investment program that would allow the Company to invest more than $700 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates.

On December 15, 2014, the Company received an order which authorizes it to replace leak prone pipe up to its forecasted budget of $211.7 million for calendars years 2015 and 2016. The Company is allowed to establish a 21-month surcharge mechanism beginning April 2, 2015 through December 31, 2016, which will be capped at $10 million and $13.4 million, respectively, to address the Company's capital needs for replacement of leak prone pipe, while minimizing future customer bill impacts. The Company was authorized to spend up to its forecasted budget of $202.7 million for calendar years 2015 and 2016 for its Neighborhood Expansion and other related programs. The Company is directed to establish a new deferral mechanism that allows it to defer the pre-tax revenue requirements associated with its capital spending program up to a maximum capital expenditure of $202.7 million made in calendar years 2015 and 2016. The Company's existing city/state deferral mechanism was eliminated as of January 1, 2015 and the non-growth deferral mechanism is continued. The order also included additional obligations and filing requirements.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014 the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes an $11.4 million regulatory liability.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released Overland's audit report publicly and adopted the majority of recommendations in the report. The audit report found that the Company, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The Company filed its plan to implement the audit recommendations with the NYPSC on May 19, 2016. On May 26, 2016, the NYPSC issued a Notice Seeking Comments on the draft customer service recommendations that were not addressed in the previous order. The Company filed comments on the draft recommendations on July 20, 2016.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Plant and machinery	**$ 3,425,941**	$ 3,209,813
Land and buildings	**72,042**	54,672
Assets in construction	**79,470**	84,838
Software and other intangibles	**51,991**	51,959
Total property, plant and equipment	**3,629,444**	3,401,282
Accumulated depreciation and amortization	**(751,964)**	(715,957)
Property, plant and equipment, net	**$ 2,877,480**	$ 2,685,325

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") are as follows:

	March 31, 2016	March 31, 2015
	(in thousands)	
Gas option contracts	**4,800**	700
Gas purchase contracts	**20,352**	26,887
Gas swap contracts	**3,480**	5,782
Total	**28,632**	33,369

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives March 31, 2016	Asset Derivatives March 31, 2015		Liability Derivatives March 31, 2016	Liability Derivatives March 31, 2015
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas option contracts	**$ 133**	$ -	Gas option contracts	**$ 127**	$ 62
Gas purchase contracts	**1,202**	12,442	Gas purchase contracts	**258**	978
Gas swap contracts	**-**	87	Gas swap contracts	**1,128**	4,130
	1,335	12,529		**1,513**	5,170
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**1,533**	14,834	Gas purchase contracts	**-**	-
	1,533	14,834		**-**	-
Total	**$ 2,868**	$ 27,363	Total	**$ 1,513**	$ 5,170

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative instruments not subject to rate recovery as of March 31, 2016 and 2015.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by the Finance Committee to National Grid plc's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to both the NGUSA Board of Directors and the Finance Committee.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments, applicable payables and receivables, and instruments that are subject to master netting agreements, was an asset of $1.4 million and $22.2 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $1.2 million and $4.3 million, respectively. The Company had no collateral posted for these instruments at March 31, 2016 or 2015. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $1.3 million and $4.5 million additional collateral to its counterparties at March 31, 2016 and 2015, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative instruments						
Gas option contracts	$ 133	$ -	$ 133	$ -	$ -	$ 133
Gas purchase contracts	2,735	-	2,735	-	-	2,735
Total	$ 2,868	$ -	$ 2,868	$ -	$ -	$ 2,868

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilities presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative instruments						
Gas option contracts	$ (127)	$ -	$ (127)	$ -	$ -	$ (127)
Gas purchase contracts	(258)	-	(258)	-	-	(258)
Gas swap contracts	(1,128)	-	(1,128)	-	-	(1,128)
Total	$ (1,513)	$ -	$ (1,513)	$ -	$ -	$ (1,513)

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative instruments						
Gas purchase contracts	$ 27,276	$ -	$ 27,276	$ -	$ -	$ 27,276
Gas swap contracts	87	-	87	-	-	87
Total	$ 27,363	$ -	$ 27,363	$ -	$ -	$ 27,363

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilities presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative instruments						
Gas option contracts	$ (62)	$ -	$ (62)	$ -	$ -	$ (62)
Gas purchase contracts	(978)	-	(978)	-	-	(978)
Gas swap contracts	(4,130)	-	(4,130)	-	-	(4,130)
Total	$ (5,170)	$ -	$ (5,170)	$ -	$ -	$ (5,170)

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 133	$ 133
Gas purchase contracts	-	8	2,727	2,735
Total	-	8	2,860	2,868
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	127	127
Gas purchase contracts	-	45	213	258
Gas swap contracts	-	1,128	-	1,128
Total	-	1,173	340	1,513
Net (liabilities) assets	$ -	$ (1,165)	$ 2,520	$ 1,355

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ -	$ 27,276	$ 27,276
Gas swap contracts	-	87	-	87
Total	-	87	27,276	27,363
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	62	62
Gas purchase contracts	-	16	962	978
Gas swap contracts	-	4,130	-	4,130
Total	-	4,146	1,024	5,170
Net (liabilities) assets	$ -	$ (4,059)	$ 26,252	$ 22,193

Derivative instruments*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 26,252**	$ 17,627
Total gains or losses included in regulatory assets and liabilities	**(25,974)**	11,250
Settlements	**2,242**	(2,625)
Balance as of the end of the year	**$ 2,520**	$ 26,252

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2016, 2015, or 2014.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2016			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ -	$ (213)	$ (213)	Discounted Cash Flow	Forward Curve (A)	$1.891 - $1.891/dth
Gas	Cross commodity contracts	2,727	-	2,727	Discounted Cash Flow	Forward Curve	$10.48 - $271.83/dth
Gas	Option contracts	133	(127)	6	Discounted Cash Flow	Implied Volatility	34% - 38%
	Total	$ 2,860	$ (340)	$ 2,520			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 22,386	$ (962)	$ 21,424	Discounted Cash Flow	Forward Curve (A)	$0.959 - $3.087/dth
Gas	Cross commodity contracts	4,890	-	4,890	Discounted Cash Flow	Forward Curve	$17.47 - $378.51/dth
Gas	Option contracts	-	(62)	(62)	Discounted Cash Flow	Implied Volatility	34% - 41%
	Total	$ 27,276	$ (1,024)	$ 26,252			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivative instruments are forward commodity prices, implied volatility, and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $754.7 million and $771.2 million, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2016, 2015, and 2014, the Company made contributions of approximately $20 million, $23 million, and $27 million, respectively, to the Plans.

The Plans' assets are commingled and cannot be allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying balance sheets. Pension and PBOP expenses are included within operations and maintenance expense in the accompanying statements of income.

KeySpan's unfunded obligations at March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 979,081**	$ 1,005,558
PBOP	**946,860**	985,669
	$ 1,925,941	$ 1,991,227

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2016, 2015, and 2014 are as follows:

	Years Ended March 31,		
	2016	**2015**	2014
		(in thousands of dollars)	
Pension	**$ 11,452**	$ 11,466	$ 11,465
PBOP	**13,863**	13,863	13,863
	$ 25,315	$ 25,329	$ 25,328

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying statements of income of $0.5 million, $0.3 million, and $0.3 million, respectively, for matching contributions.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $11.1 million and $9.4 million, respectively.

9. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ 100,000
2018	-
2019	-
2020	-
2021	-
Thereafter	500,000
Total	$ 600,000

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 58% of total utility capitalization. At March 31, 2016 and 2015, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan, the Company is permitted to declare dividends to the extent of retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition. At the date of acquisition, the Company's retained earnings balance of $478.6 million was reclassified into additional paid-in capital.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share") subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State ("NYS"). On July 8, 2011, the Company issued the Golden Share with a par value of $1.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ (1,457)**	$ 23,659	$ (11,684)
State	**8,445**	334	225
Total current tax expense (benefit)	**6,988**	23,993	(11,459)
Deferred tax expense (benefit):			
Federal	**34,373**	3,087	35,113
State	**48**	7,311	3,553
Total deferred tax expense (benefit)	**34,421**	10,398	38,666
Total income tax expense	**$ 41,409**	$ 34,391	$ 27,207

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016, 2015, and 2014 are 42.7%, 41.1%, and 37.6%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Computed tax	**$ 33,963**	$ 29,298	$ 25,327
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**5,666**	4,968	2,456
Other items, net	**1,780**	125	(576)
Total	**7,446**	5,093	1,880
Total income tax expense	**$ 41,409**	$ 34,391	$ 27,207

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and New York unitary state income tax returns. The Company has joint and several liability for any potential assessments against the consolidated group.

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the fiscal year ended March 31, 2017. Likewise there was no material change in the Company's deferred tax liability for the increase in the Metropolitan Transportation Authority surcharge from 25.6% to 28%.

Deferred Tax Components

	March 31,	
	2016	2015
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 25,940**	$ 28,348
Future federal benefit on state taxes	**34,180**	33,632
Net operating losses	**40,723**	39,472
Postretirement benefits and other employee benefits	**129,214**	130,385
Regulatory liabilities - other	**140,984**	114,689
Other items	**33,583**	22,268
Total deferred tax assets [1]	**404,624**	368,794
Deferred tax liabilities:		
Property related differences	**857,787**	779,605
Regulatory assets - environmental response costs	**116,924**	114,297
Regulatory assets - other	**91,019**	100,923
Other items	**25,042**	23,197
Total deferred tax liabilities	**1,090,772**	1,018,022
Deferred income tax liabilities, net	**$ 686,148**	$ 649,228

(1) The Company established a valuation allowance for deferred tax assets in the amount of $0.4 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax assets and non-current deferred income tax liabilities, net by $12.4 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal	NYS
	(in thousands of dollars)	
3/31/2029	$ 43,551	$ -
3/31/2030	8,523	-
3/31/2032	24,583	-
3/31/2033	14,757	-
3/31/2034	78,503	-
3/31/2035	-	265,359
3/31/2036	1,451	-

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $62.8 million, $60.2 million, and $64.5 million, respectively, of which $0.7 million as of March 31, 2016, 2015, and 2014 would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 60,208**	$ 64,525	$ 102,918
Gross increases - tax positions in prior periods	**611**	-	9,937
Gross decreases - tax positions in prior periods	**(3,592)**	(12,079)	(13,491)
Gross increases - current period tax positions	**5,560**	7,774	9,271
Gross decreases - current period tax positions	**(6)**	(12)	(12)
Settlements with tax authorities	**-**	-	(44,098)
Balance as of the end of the year	**$ 62,781**	$ 60,208	$ 64,525

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $1 million for both periods. During the years ended March 31, 2016, 2015, and 2014, the Company recorded an increase in interest expense of $0.2 million, an increase in interest expense of $4.2 million, and a reduction in interest expense of $0.6 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net in the accompanying statements of income. During the year ended March 31, 2016, the Company recognized a tax penalty of $0.3 million. No tax penalties were recognized during the years ended March 31, 2015 and 2014.

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008, and March 31, 2009. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company's NYS income tax returns for the years ended December 31, 2003 through March 31, 2008. In June 2016, the Company received a preliminary audit report with proposed increases to state taxable income primarily related to transition property depreciation deduction. The Company had previously established a reserve for uncertain tax positions for the years under examination. Within the next twelve months, the Company may adjust the tax reserves following the internal review of the audit report and settlement discussions with the state of New York. The range of the reasonably possible change in recognition of tax benefit is estimated to be between zero and $2.3 million. The income tax returns for the years ended March 31, 2009 through March 31, 2016 remain subject to examination by the state of New York.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, excluding the impact of the potential settlement with the state of New York, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

The following table indicates the earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	Tax Year
Federal	March 31, 2010
New York	December 31, 2003

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent ("ACO") or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $10.3 million, $14.4 million, and $38.3 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized its environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $59.9 million and $65.5 million at March 31, 2016 and 2015, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2016 and 2015 was $77.4 million and $82.7 million, respectively. These costs are expected to be incurred over approximately 44 years, and the discounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2016 and 2015, the Company has recorded net environmental regulatory assets of $181.3 million and $223.1 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Gas	Capital Expenditures
2017	$ 297,484	$ 1,758
2018	270,108	378
2019	235,960	-
2020	168,365	-
2021	143,806	-
Thereafter	714,638	-
Total	$ 1,830,361	$ 2,136

Legal Matters

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former MGP located in Bay Shore. The Company has been conducting a remediation at Bay Shore pursuant to an ACO with the New York State DEC. The Company intends to contest each of the lawsuits vigorously.

The Company continues to pursue a number of refund claims with respect to garbage and other taxes levied on the Company by local authorities on Long Island, most significantly Nassau County.

In addition to the matters described above, the Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately $135 million.

The Company had recorded an "other receivable" in the accompanying balance sheets in the amount of $39 million as of March 31, 2014, relating to claims filed against its property damage insurance policy, net of insurance deductibles, allowances, and advance payments received. In December 2014, NGUSA reached a final settlement with its insurers, of which the Company's allocated portion was $102.1 million (inclusive of advance payments of $54.2 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of $8.5 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying statements of income.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal, and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Brooklyn Union Gas Company	**$ 4,645**	$ 6,005	**$ -**	$ -
KeySpan Corporation	**-**	18,130	**10,126**	-
National Grid Electric Services, LLC	**-**	-	**3,847**	3,847
National Grid Engineering Services, LLC	**1,698**	1,050	**-**	-
NGUSA Parent Company	**-**	-	**1,279**	933
NGUSA Service Company	**-**	-	**9,652**	5,036
Other	**74**	631	**708**	148
Total	**$ 6,417**	$ 25,816	**$ 25,612**	$ 9,964

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool borrowings of $379.8 million and $527.1 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7%, 0.3%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $315.4 million, $255.7 million, and $253.4 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $2.8 million, $3.6 million, and $4.2 million before taxes and $1.7 million, $2.2 million, and $2.8 million after taxes, for the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.

Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2016, 2015, and 2014

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Board of Directors
of Niagara Mohawk Power Corporation

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation (the Company), which comprise the balance sheets and statements of capitalization as of March 31, 2016 and 2015, and the related statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended March 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara Mohawk Power Corporatione at March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 26, 2016

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating revenues:			
Electric services	**$ 2,371,789**	$ 2,582,648	$ 2,904,565
Gas distribution	**486,169**	585,218	620,126
Total operating revenues	**2,857,958**	3,167,866	3,524,691
Operating expenses:			
Purchased electricity	**671,304**	827,611	1,074,126
Purchased gas	**145,752**	247,209	269,381
Operations and maintenance	**1,112,644**	1,254,073	1,270,680
Depreciation and amortization	**243,631**	230,473	218,660
Other taxes	**253,292**	250,876	254,802
Total operating expenses	**2,426,623**	2,810,242	3,087,649
Operating income	**431,335**	357,624	437,042
Other income and (deductions):			
Interest on long-term debt	**(105,095)**	(100,331)	(91,664)
Other interest, including affiliate interest	**(26,637)**	(10,775)	(9,383)
Other income, net	**12,958**	12,692	16,257
Total other deductions, net	**(118,774)**	(98,414)	(84,790)
Income before income taxes	**312,561**	259,210	352,252
Income tax expense	**117,002**	90,027	123,002
Net income	**$ 195,559**	$ 169,183	$ 229,250

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Net income	**$ 195,559**	$ 169,183	$ 229,250
Other comprehensive (loss) income:			
Unrealized (losses) gains on securities	**(984)**	407	715
Change in pension and other postretirement obligations	**72**	(144)	1,102
Total other comprehensive (loss) income	**(912)**	263	1,817
Comprehensive income	**$ 194,647**	$ 169,446	$ 231,067
Related tax benefit (expense):			
Unrealized losses (gains) on securities	**$ 646**	$ (267)	$ (429)
Change in pension and other postretirement obligations	**(47)**	94	(661)
Total tax benefit (expense)	**$ 599**	$ (173)	$ (1,090)

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 195,559**	$ 169,183	$ 229,250
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**243,631**	230,473	218,660
Regulatory amortizations	**7,102**	(24,463)	(38,365)
Provision for deferred income taxes	**92,670**	87,656	92,869
Bad debt expense	**41,260**	62,941	35,248
(Income) loss from equity investments, net of dividends received	**(3)**	156	87
Allowance for equity funds used during construction	**(9,962)**	(13,270)	(10,040)
Amortization of debt discount and issuance costs	**2,962**	3,673	3,692
Net postretirement benefits (contributions) expense	**(1,468)**	23,966	106,399
Net environmental remediation payments	**(33,477)**	(32,575)	(41,554)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**97,537**	45,914	(185,417)
Inventory	**167**	(12,133)	(4,938)
Regulatory assets and liabilities, net	**137,894**	125,058	(20,983)
Derivative instruments	**33,534**	92,995	(6,316)
Prepaid and accrued taxes	**14,210**	(15,454)	44,261
Accounts payable and other liabilities	**(80,893)**	(27,189)	72,374
Other, net	**(13,914)**	22,277	(9,825)
Net cash provided by operating activities	**726,809**	739,208	485,402
Investing activities:			
Capital expenditures	**(572,187)**	(596,954)	(563,103)
Changes in restricted cash and special deposits	**(26,175)**	1,526	34,982
Affiliated money pool investing and receivables/payables, net	**5,185**	(221,837)	(67,483)
Cost of removal	**(60,745)**	(37,966)	(41,359)
Other	**488**	(1,270)	(2,750)
Net cash used in investing activities	**(653,434)**	(856,501)	(639,713)
Financing activities:			
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**(75,000)**	(600,000)	(45,600)
Proceeds from long-term debt	**-**	900,000	-
Payment of debt issuance costs	**-**	(5,000)	-
Affiliated money pool borrowing and receivables/payables, net	**-**	-	(30,189)
Advance from affiliate	**(25,000)**	(200,000)	205,000
Capital contributions	**-**	-	25,000
Parent loss tax allocation	**17,635**	12,415	15,715
Share based compensation	**-**	-	(2,677)
Net cash (used in) provided by financing activities	**(83,425)**	106,355	166,189
Net (decrease) increase in cash and cash equivalents	**(10,050)**	(10,938)	11,878
Cash and cash equivalents, beginning of year	**15,612**	26,550	14,672
Cash and cash equivalents, end of year	**$ 5,562**	$ 15,612	$ 26,550
Supplemental disclosures:			
Interest paid	**$ (104,353)**	$ (88,018)	$ (84,503)
Income taxes refunded (paid)	**110**	(5,376)	15,099
Significant non-cash items:			
Capital-related accruals included in accounts payable	**21,447**	7,928	4,157
Share based compensation	**240**	180	(2,677)

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,562**	$ 15,612
Restricted cash and special deposits	**40,491**	14,316
Accounts receivable	**552,096**	656,707
Allowance for doubtful accounts	**(154,631)**	(133,428)
Accounts receivable from affiliates	**18,561**	19,170
Intercompany money pool	**288,173**	278,048
Unbilled revenues	**101,421**	114,404
Inventory	**60,082**	60,249
Regulatory assets	**113,305**	76,726
Derivative instruments	**3,604**	19,252
Prepaid taxes	**24,537**	34,955
Other	**32,503**	31,983
Total current assets	**1,085,704**	1,187,994
Equity investments	**2,565**	2,562
Property, plant and equipment, net	**8,246,046**	7,862,269
Other non-current assets:		
Regulatory assets	**1,309,404**	1,427,507
Goodwill	**1,289,132**	1,289,132
Derivative instruments	**2,291**	-
Postretirement benefits	**211,726**	214,054
Other	**87,312**	79,402
Total other non-current assets	**2,899,865**	3,010,095
Total assets	**$ 12,234,180**	$ 12,062,920

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ **146,366**	$ 194,326
Accounts payable to affiliates	**22,417**	7,898
Advance from affiliate	**-**	25,000
Taxes accrued	**19,763**	20,358
Customer deposits	**30,081**	32,214
Interest accrued	**31,955**	33,846
Regulatory liabilities	**232,750**	204,359
Derivative instruments	**64,508**	52,666
Other	**116,721**	123,016
Total current liabilities	**664,561**	693,683
Other non-current liabilities:		
Regulatory liabilities	**938,093**	869,729
Asset retirement obligations	**15,289**	10,929
Deferred income tax liabilities, net	**1,866,930**	1,765,276
Postretirement benefits	**676,179**	743,044
Environmental remediation costs	**372,452**	415,234
Derivative instruments	**36,865**	28,530
Other	**316,133**	325,280
Total other non-current liabilities	**4,221,941**	4,158,022
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,568,221**	4,356,759
Long-term debt	**2,779,457**	2,854,456
Total capitalization	**7,347,678**	7,211,215
Total liabilities and capitalization	$ **12,234,180**	$ 12,062,920

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2016	2015
Total shareholders' equity			**$ 4,568,221**	$ 4,356,759
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
Senior Note	3.51%	October 1, 2024	**500,000**	500,000
Senior Note	4.28%	October 1, 2034	**400,000**	400,000
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
			2,350,000	2,350,000
State Authority Financing Bonds:				
NYSERDA tax-exempt	5.15%	November 1, 2025	**-**	75,000
NYSERDA tax-exempt	Variable	December 1, 2023 - July 1, 2029	**429,465**	429,465
			429,465	504,465
Total debt			**2,779,465**	2,854,465
Unamortized debt discount			**(8)**	(9)
Long-term debt			**2,779,457**	2,854,456
Total capitalization			**$ 7,347,678**	$ 7,211,215

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 730,797**	**$ 3,907,733**
Net income	-	-	-	-	-	-	229,250	229,250
Other comprehensive income:								
Unrealized gains on securities, net of $429 tax expense	-	-	-	715	-	715	-	715
Change in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Total comprehensive income								231,067
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent loss tax allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 958,987**	**$ 4,175,778**
Net income	-	-	-	-	-	-	169,183	169,183
Other comprehensive income (loss):								
Unrealized gains on securities, net of $267 tax expense	-	-	-	407	-	407	-	407
Change in pension and other postretirement obligations, net of $94 tax benefit	-	-	-	-	(144)	(144)	-	(144)
Total comprehensive income								169,446
Parent loss tax allocation	-	-	12,415	-	-	-	-	12,415
Share based compensation	-	-	180	-	-	-	-	180
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2015	**$ 187,365**	**$ 28,985**	**$ 3,011,456**	**$ 2,655**	**$ (812)**	**$ 1,843**	**$ 1,127,110**	**$ 4,356,759**
Net income	-	-	-	-	-	-	195,559	195,559
Other comprehensive (loss) income:								
Unrealized losses on securities, net of $646 tax benefit	-	-	-	(984)	-	(984)	-	(984)
Change in pension and other postretirement obligations, net of $47 tax expense	-	-	-	-	72	72	-	72
Total comprehensive income								194,647
Parent loss tax allocation	-	-	17,635	-	-	-	-	17,635
Share based compensation	-	-	240	-	-	-	-	240
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2016	**$ 187,365**	**$ 28,985**	**$ 3,029,331**	**$ 1,671**	**$ (740)**	**$ 931**	**$ 1,321,609**	**$ 4,568,221**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2016 and 2015.

The accompanying notes are an integral part of these financial statements.

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State ("NYS"). The Company provides electric service to approximately 1.7 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc. ("NMHI"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA" or the "Parent"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through August 26, 2016, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has separate revenue decoupling mechanisms ("RDM") for gas and electric which allow for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2016, 2015, and 2014 were $39.3 million, $38.6 million, and $41.7 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had prepaid property taxes of $15.7 million at March 31, 2016 and 2015.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits primarily consist of health care claims deposits and deposits held by the New York Independent System Operator ("NYISO"). The Company had restricted cash of $29 million and $12.1 million and special deposits of $11.5 million and $2.2 million at March 31, 2016 and 2015, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016, 2015, or 2014.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $47.5 million and $43.2 million and gas in storage of $12.6 million and $17.1 million at March 31, 2016 and 2015, respectively.

Derivative Instruments

The Company uses derivative instruments (including capacity, option, purchase, and swap contracts) to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract no longer qualifies for the normal purchase normal sale exception, then the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying balance sheets.

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts. Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

The Company measures derivative instruments and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: as discussed in Note 2, under “New and Recent Accounting Guidance,” certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction (“AFUDC”).

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates and average service lives for the years ended March 31, 2016, 2015, and 2014 are as follows:

	Composite Rates			**Average Service Lives**		
	Years Ended March 31,			**Years Ended March 31,**		
	2016	2015	2014	**2016**	2015	2014
Electric	**2.2%**	2.2%	2.2%	**58 years**	58 years	58 years
Gas	**2.1%**	2.1%	2.1%	**49 years**	49 years	49 years
Common	**4.6%**	4.7%	4.5%	**38 years**	38 years	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $342 million and $370.2 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $10 million, $13.3 million, and $10 million and AFUDC related to debt of $3.7 million, $4.7 million, and $4.7 million for the years ended March 31, 2016, 2015, and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015, and 2014 were 6.5%, 6.5%, and 6.4%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2016 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2016 or 2015.

Available-For-Sale Securities

The Company holds available-for-sale securities that include equities, municipal bonds, and corporate bonds. These investments are recorded at fair value and are included in other non-current assets in the accompanying balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,929**	$ 10,380
Accretion expense	**410**	518
Liabilities settled	**(788)**	-
Revaluations to present values of estimated cash flows	**4,738**	-
Liabilities incurred in the current year	**-**	31
Balance as of the end of the year	**$ 15,289**	$ 10,929

At March 31, 2016, a revaluation study of the asset retirement obligations for the Company resulted in an upward revaluation of estimated costs related to its asset retirement obligations. These changes are the result of changes in remediation costs and enhanced asset replacement programs.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company has defined benefit pension and postretirement benefit other than pension ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets in the accompanying balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying statements of income.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Fair Value Measurement – Investments Measured at Net Asset Value ("NAV")

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate New Asset Value per Share (or its equivalent)." The new guidance requires that the valuation of investments using NAV, as a practical expedient to fair value should be excluded from the fair value hierarchy. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. The new guidance is effective for non-public entities for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company has corrected the accounting by revising the prior period financial statements presented herein, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's open work orders within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $14.5 million (net of income taxes) was recorded, of which $5.7 million was recorded as a decrease to opening retained earnings (as of March 31, 2013), and $4.9 million and $3.9 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

Furthermore, management also identified an error in the amount of capital-related accruals included in accounts payable, which resulted in an overstatement in net cash provided by operating activities and in net cash used in investing activities of $6.3 million for the years ended March 31, 2015, and an understatement in net cash provided by operating activities and in net cash used in investing activities of $24.2 million for the years ended March 31, 2014.

Finally, the Company has corrected other miscellaneous account balances that were improperly recorded in the previously issued financial statements. A cumulative adjustment of $2.9 million (net of income taxes) was recorded, of which $0.7 million was recorded as an increase to opening retained earnings (as of March 31, 2013), and $2.5 million and $1.1 million were recorded as a decrease to net income with the correction recorded within operating revenues for the years ended March 31, 2015 and 2014, respectively.

	As Previously Reported	Adjustments	As Revised
		(in thousands of dollars)	
Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 3,171,854	$ (3,988)	$ 3,167,866
Operating expenses	2,801,998	8,244	2,810,242
Operating income	369,856	(12,232)	357,624
Income tax expense	94,873	(4,846)	90,027
Net income	176,569	(7,386)	169,183
Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 3,526,532	$ (1,841)	$ 3,524,691
Operating expenses	3,081,207	6,442	3,087,649
Operating income	445,325	(8,283)	437,042
Income tax expense	126,283	(3,281)	123,002
Net income	234,253	(5,003)	229,250
Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 753,692	$ (14,484)	$ 739,208
Net cash used in investing activities	(870,985)	14,484	(856,501)
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 467,615	$ 17,787	$ 485,402
Net cash used in investing activities	(621,926)	(17,787)	(639,713)

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Balance Sheet	**March 2015**		**March 2015**
Property, plant and equipment, net	$ 7,886,060	$ (23,791)	$ 7,862,269
Total other non-current assets	3,013,257	(3,162)	3,010,095
Total assets	12,089,873	(26,953)	12,062,920
Total other non-current liabilities	4,167,585	(9,563)	4,158,022
Total liabilities and capitalization	12,089,873	(26,953)	12,062,920
Retained Earnings			
March 31, 2015	1,144,500	(17,390)	1,127,110
March 31, 2014	968,991	(10,004)	958,987
March 31, 2013	735,798	(5,001)	730,797
Shareholders' Equity			
March 31, 2015	4,374,149	(17,390)	4,356,759
March 31, 2014	4,185,782	(10,004)	4,175,778
March 31, 2013	3,912,734	(5,001)	3,907,733

(1) During 2016, the Company early adopted ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" retrospectively (as discussed in Note 10, "Income Taxes"). This change in accounting policy resulted in the reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets:

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 95,479**	$ 61,944
Gas costs adjustment	**989**	9,190
Revenue decoupling mechanism	**12,918**	5,147
Other	**3,919**	445
Total	**113,305**	76,726
Non-current:		
Environmental response costs	**372,452**	415,234
Postretirement benefits	**644,693**	729,771
Regulatory deferred tax asset	**88,373**	78,790
Storm costs	**95,207**	93,391
Other	**108,679**	110,321
Total	**1,309,404**	1,427,507
Regulatory liabilities		
Current:		
Energy efficiency	**118,598**	68,305
Gas costs adjustment	**9,826**	3,169
Rate adjustment mechanisms	**91,769**	100,154
Revenue decoupling mechanism	**5,159**	4,082
Temporary state assessment	**5,462**	28,649
Other	**1,936**	-
Total	**232,750**	204,359
Non-current:		
Carrying charges	**73,386**	61,039
Cost of removal	**341,963**	370,163
Economic development fund	**76,455**	56,198
Long-term debt true-up	**47,624**	25,096
Postretirement benefits	**77,922**	97,562
Storm costs	**119,389**	87,778
Other	**201,354**	171,893
Total	**938,093**	869,729
Net regulatory assets	**$ 251,866**	$ 430,145

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Derivative instruments: The Company evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Economic development fund: Represents actual expenditures and economic development discounts below the rate allowance, deferred for future return.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of the Company's energy efficiency programs as approved by the NYPSC.

Environmental response costs: Represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Long-term debt true-up: As approved by the NYPSC, the Company has a mechanism whereby it reconciles the actual interest expense related to its variable rate debt with the target amounts reflected in rates ($22 million for electric and $5.5 million for gas). The Company will defer the difference for future refund to, or recovery from, customers.

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The regulatory liability primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Regulatory deferred tax asset: Represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently amortizing into rates at a stated annual revenue requirement under the current rate plan.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has an electric RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between annual target revenue and actual billed delivery service revenue. Any difference between the annual target revenue and actual billed delivery service revenue is recorded as a regulatory asset or regulatory liability. The Company also has a gas RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: The Joint Proposal (NMPC rate proceeding Case 12-E-0201) establishes an annual allowance for major storm recovery of $29 million in each of the three years. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers. The regulatory liability represents the cumulative storm reserve allowance / funding for major storm incremental costs. The regulatory asset represents the cumulative costs incurred for qualified storm events.

Temporary state assessment: In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers, respectively, for rates effective July 1, 2014 through June 30, 2015.

The Company records carrying charges on all regulatory balances (with the exception of amortization of deferral recoveries, derivative instruments, cost of removal, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

Electric and Gas Filing

In March 2013, the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The original term of the rate plan was from April 1, 2013 through March 31, 2016, and provided for electric delivery rate revenue of $1,338.3 million in the first year, $1,395.9 million in the second year, and $1,432.5 million in the third year. It also provided for gas delivery rate revenue of $307.4 million in the first year, $314.7 million in the second year, and $322 million in the third year. On December 21, 2015, the Company filed a Petition with the NYPSC seeking authorization to recover approximately $150 million in revenue requirements associated with a proposed two-year, $1.4 billion capital spending program for the Company's electric and gas operations in fiscal years 2017 and 2018. The Petition proposed that the revenue requirement be fully funded by existing regulatory deferrals and proposed no increase in customer rates. The Petition also proposed on extension of the existing rate plan which expired in March 2016 through March 2018.

On May 19, 2016, the NYPSC granted approval of the capital investment petition, approving a two-year capital program worth approximately $1.3 billion and funding of the incremental portion of that investment through the use of $140 million in regulatory liabilities due to customers over 24 months.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA also challenges certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint against the Company seeking an order effective February 6, 2014 to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the NYISO, with a corresponding overall weighted cost of capital of 6.6%. On September 8, 2014, the FERC issued orders consolidating the first and second complaints and setting the consolidated complaints and the third complaint for hearing and settlement procedures.

On February 24, 2015, the Company filed an Offer of Settlement and Settlement Agreement ("Settlement") resolving all issues in the complaints and setting the ROE at 10.3%, inclusive of any incentive adders, effective November 2, 2012. The Settlement also provided for various refunds, and separate payments of $200,000 and $180,000 to certain customers. On May 13, 2015, the FERC approved the Offer of Settlement, and on June 12, 2015, the Company filed tariff revisions to implement the new 10.3% ROE negotiated in the settlement. The Company subsequently provided all refunds required by the Settlement and on September 30, 2015 filed a Refund Report with the FERC which concluded this FERC proceeding.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its Reliability Support Services ("RSS") costs under two agreements with NRG Energy Inc. to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014, the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC. On March 19, 2015, the FERC issued two orders relating to the Company's December 6, 2013 filing of proposed tariff revisions to the TSC Rate. In the first order, the FERC set for hearing and settlement judge procedures the justness and reasonableness of the Company's proposed Wholesale TSC formula rate revisions and the Dunkirk RSS charges. In the second order, the FERC rejected a request for rehearing filed by the MEUA regarding the FERC's decision to accept the December 6, 2013 amendment for filing retroactive to July 1, 2013. The FERC held the hearing on the first order in abeyance pending the outcome of settlement proceedings before a settlement judge. The parties agreed to the terms of a settlement which was filed with the settlement judge on September 11, 2015 and certified by the settlement judge to the FERC on October 19, 2015. Under the terms of the settlement the Company will include the costs of the Dunkirk RSS agreements, including the costs associated with extending the 2013 Dunkirk RSS agreement through the end of 2015, less $35 million, in the TSC Rate. The $35 million reduction to the revenue requirement impact of the Dunkirk RSS agreements will be implemented through a billing adjustment included in the Company's 2016 annual TSC informational update filing. Any change in revenues received from wholesale transmission customers resulting from the settlement agreement will be offset by revenues from retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released Overland's audit report publicly and adopted the majority of recommendations in the report. The audit report found that the Company, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The Company filed its plan to implement the audit recommendations with the NYPSC on May 19, 2016. On May 26, 2016, the NYPSC issued a Notice Seeking Comments on the draft customer service recommendations that were not addressed in the previous order. The Company filed comments on the draft recommendations on July 20, 2016.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, the Company filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which the Company calculates its supply-related Mass Market Adjustment ("MMA"). The Company proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting the Company's waiver request (the "Emergency Order"). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, the Company's request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing the Company to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

Petition for Authorization to Defer an Actuarial Experience Pension Settlement Loss for the Year Ending March 31, 2014

On February 28, 2014 and August 13, 2014, the Company filed petitions seeking authorization to defer $14.1 million related to a pension settlement loss incurred during the year ending March 31, 2014.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Plant and machinery	**$ 10,622,855**	$ 10,157,612
Land and buildings	**582,547**	558,383
Assets in construction	**257,459**	322,500
Software and other intangibles	**6,888**	8,141
Total property, plant and equipment	**11,469,749**	11,046,636
Accumulated depreciation and amortization	**(3,223,703)**	(3,184,367)
Property, plant and equipment, net	**$ 8,246,046**	$ 7,862,269

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas and electricity purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") and megawatt hours ("mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands)		*(in thousands)*	
Gas option contracts (dths)	**-**	-	**4,055**	760
Gas purchase contracts (dths)	**-**	-	**4,373**	5,178
Gas swap contracts (dths)	**-**	-	**3,350**	4,380
Electric option contracts (mwhs)	**203**	154	**-**	-
Electric swap contracts (mwhs)	**11,786**	10,779	**-**	-
Total	**11,989**	10,933	**11,778**	10,318

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2016	2015		**2016**	2015
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas option contracts	**$ 90**	$ -	Gas option contracts	**$ 155**	$ 65
Gas purchase contracts	**16**	10	Gas purchase contracts	**67**	170
Gas swap contracts	**-**	-	Gas swap contracts	**1,047**	3,908
Electric capacity contracts	**137**	-	Electric capacity contracts	**-**	-
Electric option contracts	**-**	-	Electric option contracts	**158**	953
Electric swap contracts	**3,361**	19,242	Electric swap contracts	**63,081**	47,570
	3,604	19,252		**64,508**	52,666
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**60**	-	Gas purchase contracts	**-**	-
Electric capacity contracts	**2,231**	-	Electric capacity contracts	**-**	-
Electric option contracts	**-**	-	Electric option contracts	**725**	-
Electric swap contracts	**-**	-	Electric swap contracts	**36,140**	28,530
	2,291	-		**36,865**	28,530
Total	**$ 5,895**	$ 19,252	Total	**$ 101,373**	$ 81,196

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative instruments not subject to rate recovery as of March 31, 2016 and 2015.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by the Finance Committee to National Grid plc's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to both the NGUSA Board of Directors and the Finance Committee.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of $66.5 million and $49.8 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $98.4 million and $62 million, respectively. The Company had $29 million and $12.1 million collateral posted for these instruments at March 31, 2016 and 2015, respectively. At March 31, 2016, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $9.6 million, $22.1 million, or $69.4 million, respectively. At March 31, 2015, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $13.6 million, $23.6 million, or $58.9 million, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 90	$ -	$ 90	$ -	$ -	$ 90
Gas purchase contracts	76	-	76	-	-	76
Electric capacity contracts	2,368	-	2,368	-	-	2,368
Electric swap contracts	3,361	-	3,361	-	-	3,361
Total	$ 5,895	$ -	$ 5,895	$ -	$ -	$ 5,895

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 155	$ -	$ 155	$ -	$ -	$ 155
Gas purchase contracts	67	-	67	-	-	67
Gas swap contracts	1,047	-	1,047	-	-	1,047
Electric option contracts	883	-	883	-	-	883
Electric swap contracts	99,221	-	99,221	-	29,000	70,221
Total	$ 101,373	$ -	$ 101,373	$ -	$ 29,000	$ 72,373

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative instruments						
Gas purchase contracts	$ 10	$ -	$ 10	$ -	$ -	$ 10
Electric swap contracts	19,242	-	19,242	-	-	19,242
Total	$ 19,252	$ -	$ 19,252	$ -	$ -	$ 19,252

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilities presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative instruments						
Gas option contracts	$ 65	$ -	$ 65	$ -	$ -	$ 65
Gas purchase contracts	170	-	170	-	-	170
Gas swap contracts	3,908	-	3,908	-	-	3,908
Electric option contracts	953	-	953	-	-	953
Electric swap contracts	76,100	-	76,100	-	12,100	64,000
Total	$ 81,196	$ -	$ 81,196	$ -	$ 12,100	$ 69,096

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 90	$ 90
Gas purchase contracts	-	-	76	76
Electric capacity contracts	-	-	2,368	2,368
Electric swap contracts	-	3,361	-	3,361
Available-for-sale securities	19,761	10,081	-	29,842
Total	19,761	13,442	2,534	35,737
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	155	155
Gas purchase contracts	-	67	-	67
Gas swap contracts	-	1,047	-	1,047
Electric option contracts	-	-	883	883
Electric swap contracts	-	99,221	-	99,221
Total	-	100,335	1,038	101,373
Net assets (liabilities)	$ 19,761	$ (86,893)	$ 1,496	$ (65,636)

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ 6	$ 4	$ 10
Electric swap contracts	-	19,242	-	19,242
Available-for-sale securities	20,008	9,926	-	29,934
Total	20,008	29,174	4	49,186
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	65	65
Gas purchase contracts	-	-	170	170
Gas swap contracts	-	3,908	-	3,908
Electric option contracts	-	-	953	953
Electric swap contracts	-	76,100	-	76,100
Total	-	80,008	1,188	81,196
Net assets (liabilities)	$ 20,008	$ (50,834)	$ (1,184)	$ (32,010)

Derivative instruments*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") electric and gas swaps contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments consist of gas option and purchase, and electric option and capacity transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated, or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Available-for-sale securities: Available-for-sale securities are included in other non-current assets in the accompanying balance sheets and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (1,184)**	$ 1,165
Transfers out of Level 3	**-**	4,743
Net gains (losses) included in regulatory assets and liabilities	**1,293**	(9,270)
Settlements	**1,387**	2,178
Balance as of the end of the year	**$ 1,496**	$ (1,184)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2016, 2015, or 2014.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2016 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(in thousands of dollars)					
Gas	Option contracts	$ 90	$ (155)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.090-$0.363/dth 34% - 38%
Gas	Purchase contracts	76	-	76	Discounted Cash Flow	Forward Curve	$12.72-$31.35/dth
Electric	Option contracts	-	(883)	(883)	Discounted Cash Flow	Implied Volatility	12% - 54%
Electric	Capacity contracts	2,368	-	2,368	Discounted Cash Flow	Forward Curve	$0.58-$5.80/MW
	Total	$ 2,534	$ (1,038)	$ 1,496			

Commodity	Level 3 Position	Fair Value as of March 31, 2015 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(in thousands of dollars)					
Gas	Option contracts	$ -	$ (65)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.272-$0.295/dth 34% - 41%
Gas	Purchase contracts	4	(170)	(166)	Discounted Cash Flow	Forward Curve	$0.959-$1.270/dth
Electric	Option contracts	-	(953)	(953)	Discounted Cash Flow	Implied Volatility	30% - 69%
	Total	$ 4	$ (1,188)	$ (1,184)			

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas option derivative instruments and electric option and swap derivative instruments are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $2.9 billion and $3 billion, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. A portion of the cost of these plans is charged to the Company to the extent employee's participating in those plans provide services to the Company. The Company is also allocated costs associated with affiliated service companies' employees for work performed on the Company's behalf.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $37.7 million to the qualified pension plan during the year ended March 31, 2017.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $55.3 million to the PBOP Plans during the year ended March 31, 2017.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying statements of income of $8.4 million, $7.9 million, and $7.7 million, respectively, for matching contributions.

Components of Net Periodic Benefit Costs

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Service cost	**$ 26,229**	$ 23,583	$ 24,888
Interest cost	**56,379**	60,957	60,507
Expected return on plan assets	**(89,179)**	(100,068)	(93,849)
Amortization of prior service cost, net	**3,719**	3,719	4,805
Amortization of net actuarial loss	**53,183**	52,606	61,957
Settlement loss	**-**	-	13,815
Total cost	**$ 50,331**	$ 40,797	$ 72,123

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Service cost	**$ 26,941**	$ 20,687	$ 20,618
Interest cost	**75,551**	76,608	70,219
Expected return on plan assets	**(79,993)**	(83,046)	(73,904)
Amortization of prior service cost, net	**2,243**	12,681	12,681
Amortization of net actuarial loss	**46,142**	27,888	26,371
Total cost	**$ 70,884**	$ 54,818	$ 55,985

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 48,807**	$ 114,848	$ (12,327)
Amortization of net actuarial loss	**(53,183)**	(52,606)	(61,957)
Amortization of prior service cost, net	**(3,719)**	(3,719)	(4,805)
Total	**$ (8,095)**	$ 58,523	$ (79,089)
Included in regulatory assets	**$ (7,976)**	$ 58,285	$ (77,880)
Included in AOCI	**(119)**	238	(1,209)
Total	**$ (8,095)**	$ 58,523	$ (79,089)

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (42,177)**	$ 296,489	$ 54,283
Amortization of net actuarial loss	**(46,142)**	(27,888)	(26,371)
Amortization of prior service cost, net	**(2,243)**	(12,681)	(12,681)
Total	**$ (90,562)**	$ 255,920	$ 15,231
Included in regulatory assets	**$ (90,562)**	$ 255,920	$ 15,231
Total	**$ (90,562)**	$ 255,920	$ 15,231

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss	**$ 255,804**	$ 260,180	$ 197,938
Prior service cost	**14,276**	17,995	21,714
Total	**$ 270,080**	$ 278,175	$ 219,652
Included in regulatory assets	**$ 268,598**	$ 276,574	$ 218,289
Included in AOCI	**1,482**	1,601	1,363
Total	**$ 270,080**	$ 278,175	$ 219,652

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss	**$ 364,231**	$ 452,550	$ 183,949
Prior service cost	**(1,596)**	647	13,328
Total	**$ 362,635**	$ 453,197	$ 197,277
Included in regulatory assets	**$ 362,635**	$ 453,197	$ 197,277
Total	**$ 362,635**	$ 453,197	$ 197,277

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2017 for the Pension Plans is $58.9 million and $3.3 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ended March 31, 2017 for the PBOP Plans is $52 million and $0.9 million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
		(in thousands of dollars)		
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,627,785)**	$ (1,449,308)	**$ (2,080,082)**	$ (1,752,928)
Service cost	**(31,324)**	(28,339)	**(31,290)**	(24,427)
Interest cost	**(62,608)**	(67,418)	**(80,190)**	(81,160)
Net actuarial gain (loss)	**41,356**	(177,053)	**168,860**	(284,758)
Benefits paid	**125,241**	94,333	**81,015**	74,835
Actual Medicare Part D subsidy received	**-**	-	**-**	(8)
Employer group waiver plan subsidy received	**-**	-	**(10,292)**	(11,636)
Benefit obligation as of the end of the year	**(1,555,120)**	(1,627,785)	**(1,951,979)**	(2,080,082)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,803,758**	1,736,397	**1,273,363**	1,204,634
Actual return (loss) on plan assets	**2,402**	161,291	**(28,629)**	58,011
Company contributions	**50,034**	403	**55,304**	85,553
Benefits paid	**(125,241)**	(94,333)	**(81,015)**	(74,835)
Fair value of plan assets as of the end of the year	**1,730,953**	1,803,758	**1,219,023**	1,273,363
Funded status	**$ 175,833**	$ 175,973	**$ (732,956)**	$ (806,719)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.5 billion and $1.6 billion at March 31, 2016 and 2015, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
		(in thousands of dollars)		
Other non-current assets	**$ 211,726**	$ 214,054	**$ -**	$ -
Current liabilities	**(376)**	(382)	**(5,000)**	(7,300)
Other non-current liabilities	**(2,129)**	(2,489)	**(674,050)**	(740,555)
Total	**$ 209,221**	$ 211,183	**$ (679,050)**	$ (747,855)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2016:

(in thousands of dollars) Years Ending March 31,	Pension Plans	PBOP Plans
2017	$ 175,743	$ 76,490
2018	171,806	80,384
2019	163,495	84,569
2020	156,062	88,643
2021	147,881	93,160
Thereafter	607,896	521,672
Total	$ 1,422,883	$ 944,918

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
Benefit Obligations:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.00%	7.00%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	7.00%	6.75%

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
Benefit Obligations:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.25%-6.75%	7.00%-7.25%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	7.00%-7.25%	7.00%-7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2016	2015
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	8.00%
Post 65	**6.25%**	6.50%
Prescription	**11.00%**	6.50%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2025**	2022
Post 65	**2024**	2022
Prescription	**2025**	2022

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	**March 31, 2016**
1% point increase	
Total of service cost plus interest cost	$ 24,677
Postretirement benefit obligation	337,371
1% point decrease	
Total of service cost plus interest cost	(19,842)
Postretirement benefit obligation	(287,438)

Plan Assets

NGUSA manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments. Small investments are also approved for private equity, real estate, and infrastructure with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations for the benefit plans as of March 31, 2016 and 2015 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**-**	-
Real estate	**4%**	4%	**-**	-
Infrastructure	**2%**	2%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets:

	March 31, 2016				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
	(in thousands of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 1,220	$ 40,741	$ -	$ 756	$ 42,717
Accounts payable	(20,648)	-	-	-	(20,648)
Convertible securities	-	919	-	-	919
Equity	144,802	55,545	-	410,283	610,630
Global tactical asset allocation	-	-	-	82,186	82,186
Fixed income securities	-	800,890	-	15,152	816,042
Preferred securities	-	10,447	-	-	10,447
Futures contracts	85	-	-	-	85
Private equity	-	-	-	100,794	100,794
Real estate	-	-	-	87,781	87,781
Total	$ 125,459	$ 908,542	$ -	$ 696,952	$ 1,730,953
PBOP Assets:					
Cash and cash equivalents	$ 18,788	$ 546	$ -	$ 715	$ 20,049
Accounts receivable	13,192	-	-	-	13,192
Accounts payable	(11,958)	-	-	-	(11,958)
Equity	165,750	49,181	-	620,104	835,035
Global tactical asset allocation	32,122	-	-	70,873	102,995
Fixed income securities	450	258,611	-	-	259,061
Futures contracts	(22)	671	-	-	649
Total	$ 218,322	$ 309,009	$ -	$ 691,692	$ 1,219,023

	March 31, 2015				
	Level 1	Level 2	Level 3	Not categorized	Total
	(in thousands of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 1,394	$ 43,127	$ -	$ 286	$ 44,807
Accounts payable	(22,333)	-	-	-	(22,333)
Equity	152,747	56,774	-	423,069	632,590
Global tactical asset allocation	-	-	-	69,640	69,640
Fixed income securities	-	862,528	-	12,088	874,616
Preferred securities	-	15,104	-	-	15,104
Futures contracts	244	-	-	-	244
Private equity	-	-	-	94,875	94,875
Real estate	-	-	-	94,215	94,215
Total	$ 132,052	$ 977,533	$ -	$ 694,173	$ 1,803,758
PBOP Assets:					
Cash and cash equivalents	$ 23,265	$ -	$ -	$ 304	$ 23,569
Accounts receivable	2,078	-	-	-	2,078
Accounts payable	(1,104)	-	-	-	(1,104)
Equity	177,166	49,003	-	669,514	895,683
Global tactical asset allocation	34,364	-	-	62,800	97,164
Fixed income securities	449	255,663	-	-	256,112
Futures contracts	(139)	-	-	-	(139)
Total	$ 236,079	$ 304,666	$ -	$ 732,618	$ 1,273,363

The methods used to fair value pension and PBOP assets are described below:

Cash and cash equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Cash and cash equivalents invested in the Employee Benefit Temporary Investment Funds and JPMorgan Chase Bank Liquidity Funds are excluded from the fair value hierarchy. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and preferred securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate. Investments with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Private equity and real estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital, and other investments are valued using evaluations (NAV per fund share) based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in Limited Partnerships with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the NAV as a practical expedient could result in a different fair value measurement at the reporting date.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $13 million and $14.4 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2016 and 2015:

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of March 31, 2014	$ 2,248	$ (668)	$ 1,580
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $133 tax benefit)	-	(204)	(204)
Gain on investment (net of $588 tax expense)	897	-	897
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $39 tax expense) (1)	-	60	60
Gain on investment (net of $321 tax benefit) (1)	(490)	-	(490)
Net current period other comprehensive income (loss)	407	(144)	263
Balance as of March 31, 2015	**$ 2,655**	**$ (812)**	**$ 1,843**
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $4 tax benefit)	-	(5)	(5)
Loss on investment (net of $434 tax benefit)	(666)	-	(666)
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $51 tax expense) (1)	-	77	77
Gain on investment (net of $212 tax benefit) (1)	(318)	-	(318)
Net current period other comprehensive (loss) income	(984)	72	(912)
Balance as of March 31, 2016	**$ 1,671**	**$ (740)**	**$ 931**

(1) Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ -
2018	-
2019	-
2020	750,000
2021	-
Thereafter	2,029,465
Total	$ 2,779,465

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt. The authorization is effective for a period of two years and expires on January 11, 2017. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

In September 2012, the NYPSC granted multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In November 2012, the Company issued $700 million of unsecured long-term debt, and in September 2014, the Company issued the remaining $900 million of unsecured long-term debt under this authority.

On May 19, 2016, the NYPSC authorized the Company to issue up to $2.1 billion of long-term debt in one or more transactions through March 31, 2020. The Company can issue up to $429.5 million of the total authorization to refinance existing auction rate debt.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $429.5 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). The bonds bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.44% to 1.11% for the year ended March 31, 2016. The bonds are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rate and the senior unsecured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in any of the years ended March 31, 2016, 2015, or 2014.

The Company also had $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which were callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes. In June 2015, the Company executed the optional redemption provision under the indenture and redeemed the bond at par.

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2016, 2015, and 2014.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the Merger Rate Plan, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	2016	2015	2016	2015	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share") subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of NYS. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

The Company did not redeem any preferred stock during the years ended March 31, 2016, 2015, or 2014. The annual dividend requirement for cumulative preferred stock was $1.1 million for each of the years ended March 31, 2016, 2015, and 2014.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 8,555**	$ (9,498)	$ 22,946
State	**15,777**	11,869	7,187
Total current tax expense (benefit)	**24,332**	2,371	30,133
Deferred tax expense (benefit):			
Federal	**89,257**	77,491	77,166
State	**5,977**	12,101	17,639
Total deferred tax expense (benefit)	**95,234**	89,592	94,805
Amortized investment tax credits [1]	**(2,564)**	(1,936)	(1,936)
Total deferred tax expense (benefit)	**92,670**	87,656	92,869
Total income tax expense	**$ 117,002**	$ 90,027	$ 123,002

[1] Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016, 2015, and 2014 are 37.4%, 34.7%, and 34.9%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Computed tax	**$ 109,397**	$ 90,723	$ 123,289
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(3,487)**	(3,722)	(4,342)
Investment tax credits	**(2,564)**	(1,936)	(1,936)
State income tax, net of federal benefit	**14,140**	15,579	16,137
Temporary differences flowed through	**(834)**	(5,053)	(4,247)
Other items, net	**350**	(5,564)	(5,899)
Total	**7,605**	(696)	(287)
Total income tax expense	**$ 117,002**	$ 90,027	$ 123,002

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and New York unitary state income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the fiscal year ended March 31, 2017.

Deferred Tax Components

	March 31,	
	2016	2015
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 64,172**	$ 55,373
Environmental remediation costs	**154,568**	172,574
Future federal benefit on state taxes	**53,046**	49,871
Postretirement benefits and other employee benefits	**228,550**	256,583
Regulatory liabilities - other	**247,668**	211,173
Other items	**97,991**	86,153
Total deferred tax assets (1)	**845,995**	831,727
Deferred tax liabilities:		
Property related differences	**2,208,179**	2,044,847
Regulatory assets - environmental response costs	**138,480**	159,104
Regulatory assets - postretirement benefits	**235,341**	262,498
Other items	**113,451**	110,516
Total deferred tax liabilities	**2,695,451**	2,576,965
Net deferred income tax liabilities	**1,849,456**	1,745,238
Deferred investment tax credits	**17,474**	20,038
Deferred income tax liabilities, net	**$ 1,866,930**	$ 1,765,276

(1) The Company established a valuation allowance for deferred tax assets in the amount of $1.5 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax assets and non-current deferred income tax liabilities, net by $165 million as of March 31, 2015.

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $131 million, $128.1 million, and $121 million, respectively, of which $6.7 million for each of the years ended March 31, 2016 and 2015 and $12.4 million for the year ended March 31, 2014 would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Balance as of the beginning of the year	**$ 128,105**	$ 120,983	$ 120,195
Gross increases - tax positions in prior periods	**15**	7,925	9,028
Gross decreases - tax positions in prior periods	**(3,768)**	(10,234)	(335)
Gross increases - current period tax positions	**6,614**	9,431	3,917
Gross decreases - current period tax positions	**-**	-	(41)
Settlements with tax authorities	**-**	-	(11,781)
Balance as of the end of the year	**$ 130,966**	$ 128,105	$ 120,983

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $14.2 million and $10.8 million, respectively. The Company recorded interest expense of $3.4 million for each of the years ended March 31, 2016 and 2015 and recorded a reduction to interest expense of $1.3 million during the year ended March 31, 2014. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2016, 2015, or 2014.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company's NYS income tax returns for the years ended March 31, 2009 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the state of New York.

The following table indicates the earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	**Tax Year**
Federal	March 31, 2010
New York	March 31, 2009

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former

Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $33.5 million, $32.6 million, and $41.6 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $372.5 million and $415.2 million at March 31, 2016 and 2015, respectively. These costs are expected to be incurred over approximately 44 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2016 and 2015, the Company has recorded environmental regulatory assets of $372.5 million and $415.2 million, respectively, and environmental regulatory liabilities of $38.8 million and $31.8 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.6 million, $4.9 million, and $4.6 million for the years ended March 31, 2016, 2015, and 2014, respectively.

The future minimum lease payments for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2017	$ 4,457
2018	4,396
2019	4,128
2020	4,107
2021	4,015
Thereafter	18,148
Total	$ 39,251

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, the Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2017	$ 166,710	$ 114,540
2018	155,316	5,870
2019	145,766	-
2020	145,077	-
2021	144,697	-
Thereafter	606,519	-
Total	$ 1,364,085	$ 120,410

The Company purchases additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the NYISO at market prices.

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

Nuclear Contingencies

As of March 31, 2016 and 2015, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission ("NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the District of Columbia Circuit. In January 2010 the U.S. government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the U.S. Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal, and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Boston Gas Company	**$ 88**	$ -	**$ -**	$ 1,699
Colonial Gas Company	**11**	-	**-**	516
KeySpan Gas East Corporation	**512**	-	**-**	452
Massachusetts Electric Company	**9,714**	8,057	**-**	-
National Grid Electric Services, LLC	**-**	-	**718**	718
National Grid Engineering Services, LLC	**6,134**	2,643	**-**	-
NGUSA	**-**	-	**5,893**	4,240
NGUSA Service Company	**-**	7,236	**15,795**	-
Other	**2,102**	1,234	**11**	273
Total	**$ 18,561**	$ 19,170	**$ 22,417**	$ 7,898

Advance from Affiliate

In June 2009, the Company received board authorization to borrow up to $500 million from NGUSA from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2016 and 2015, the Company had no outstanding advance from affiliate.

In June 2009, the Company received board authorization to borrow up to $450 million from NMHI from time to time for working capital needs. The average interest rates were 0.7%, 0.3%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively. At March 31, 2016 and 2015, the Company had an outstanding advance from affiliate of zero and $25 million, respectively.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $288.2 million and $278 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7%, 0.3%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $478.4 million, $467 million, and $463.7 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $9.6 million, $14.1 million, and $15 million before taxes and $5.8 million, $8.5 million, and $9.1 million after taxes, for the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.

EXHIBIT 1

National Grid plc

Financial information
submission for the New York Public Service Commission

Year ended	March 31, 2016
Exchange rate (balance sheet)	$1.44:£1.00
Exchange rate (income statement)	$1.47:£1.00
Exchange rate (opening)	$1.49:£1.00
Exchange rate (acquisition)	$2.01:£1.00

Note: Numbers are rounded on conversion into US dollars.
Rounded numbers may not cast.

Consolidating schedules as at March 31, 2016	National Grid plc *IFRS company*	National Grid USA *IFRS consolidated (section 2)*	National Grid Gas plc *IFRS consolidated (section 3)*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)*	Other major subsidiaries *IFRS aggregated (section 4)*	Total of non-major subsidiaries *IFRS aggregated*	Consol-idation adjustments *IFRS*	**National Grid plc *IFRS consolidated***	National Grid plc *US GAAP adjustments*	**National Grid plc *US GAAP consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	***$'m***
Condensed balance sheet										
Goodwill	-	7,636	-	-	4	-	-	**7,640**	3,017	**10,657**
Other intangible assets	-	608	363	293	57	(46)	-	**1,275**	(1,230)	**45**
Property, plant & equipment	-	25,751	18,189	16,871	1,433	(45)	135	**62,334**	2,559	**64,893**
Investments in subsidiaries	12,713	-	-	-	111,362	3,050	(127,125)	**-**	-	**-**
Investments	-	814	-	-	465	(16)	-	**1,263**	-	**1,263**
Non-current regulatory assets	-	-	-	-	-	-	-	**-**	2,387	**2,387**
Other non-current assets	226	247	1,508	646	92	410	-	**3,129**	3,901	**7,030**
Intercompany receivables	16,941	-	8,094	-	76,055	388	(101,478)	**-**	-	**-**
Inventories	-	480	38	87	24	(1)	-	**628**	-	**628**
Receivables and other current assets	403	2,414	725	409	358	-	(356)	**3,953**	-	**3,953**
Regulatory assets	-	-	-	-	-	-	-	**-**	675	**675**
Financial and other investments	1,788	801	167	611	942	-	-	**4,309**	(2,184)	**2,125**
Cash and cash equivalents	2	162	-	3	22	(6)	-	**183**	2,184	**2,367**
Assets of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total assets	32,073	38,913	29,084	18,920	190,814	3,734	(228,824)	**84,714**	11,309	**96,023**
Borrowings (including bank overdrafts)	(1,342)	(1,416)	(873)	(509)	(1,059)	7	2	**(5,190)**	533	**(4,657)**
Current liabilities	(405)	(2,306)	(1,140)	(1,375)	(617)	12	286	**(5,545)**	(956)	**(6,501)**
Current tax liabilities	(5)	(323)	(49)	8	28	(10)	(11)	**(362)**	120	**(242)**
Intercompany payables	(20,937)	(3,301)	(2,395)	(1,312)	(68,059)	(293)	96,297	**-**	-	**-**
Non-current borrowings	(1,716)	(8,358)	(9,980)	(8,585)	(6,983)	69	-	**(35,553)**	1,201	**(34,352)**
Other non-current liabilities	(514)	(2,356)	(2,473)	(1,608)	(647)	13	(12)	**(7,597)**	1,645	**(5,952)**
Deferred tax liabilities	(5)	(3,149)	(2,224)	(1,163)	(50)	(71)	-	**(6,662)**	(6,359)	**(13,021)**
Pensions and other post-retirement benefits	-	(3,874)	-	(389)	(15)	(28)	-	**(4,306)**	(382)	**(4,688)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total liabilities	(24,924)	(25,083)	(19,134)	(14,933)	(77,402)	(301)	96,562	**(65,215)**	(4,198)	**(69,413)**
Shareholders' equity	(7,149)	(13,820)	(9,947)	(3,987)	(113,412)	(3,433)	132,263	**(19,485)**	(7,079)	**(26,564)**
Minority interests	-	(10)	(3)	-	-	-	(1)	**(14)**	(32)	**(46)**
Total liabilities and equity	(32,073)	(38,913)	(29,084)	(18,920)	(190,814)	(3,734)	228,824	**(84,714)**	(11,309)	**(96,023)**

Consolidating schedules as at March 31, 2016	National Grid plc *IFRS company*	National Grid USA *IFRS consolidated (section 2)*	National Grid Gas plc *IFRS consolidated (section 3)*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)*	Other major subsidiaries *IFRS aggregated (section 4)*	Total of non-major subsidiaries *IFRS aggregated*	Consol-idation adjustments *IFRS*	**National Grid plc *IFRS consolidated***	National Grid plc *US GAAP adjustments*	**National Grid plc *US GAAP consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	***$'m***
Condensed income statement										
Revenue	-	11,120	4,598	5,862	537	22	147	**22,286**	(129)	**22,157**
Other operating income	-	75	49	2	79	(4)	(201)	**-**	-	**-**
Operating costs	-	(9,432)	(2,578)	(4,152)	(2,711)	2,430	181	**(16,262)**	(344)	**(16,606)**
Operating profit	-	1,763	2,069	1,712	(2,095)	2,448	127	**6,024**	(473)	**5,551**
Net finance costs	1,034	(619)	(359)	(205)	6,855	(951)	(7,395)	**(1,640)**	130	**(1,510)**
Dividend income	1,371	-	-	-	7,528	(1,568)	(7,331)	**-**	-	**-**
Share of post-tax results of joint ventures	-	20	-	-	67	-	(1)	**86**	(19)	**67**
Profit before taxation	2,405	1,164	1,710	1,507	12,355	(71)	(14,600)	**4,470**	(362)	**4,108**
Taxation	69	(414)	(122)	(170)	(18)	3	6	**(646)**	81	**(565)**
Profit for the year	2,474	750	1,588	1,337	12,337	(68)	(14,594)	**3,824**	(281)	**3,543**
Minority interests	-	(1)	(3)	-	-	-	-	**(4)**	(1)	**(5)**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	**-**	-	**-**
Net income from continuing operations	2,474	749	1,585	1,337	12,337	(68)	(14,594)	**3,820**	(282)	**3,538**
Net income from discontinued operations	-	-	-	-	-	-	-	**-**	-	**-**
Net income attributable to equity shareholders	2,474	749	1,585	1,337	12,337	(68)	(14,594)	**3,820**	(282)	**3,538**
Condensed cash flow statement										
Net cash inflow from operating activities	86	2,734	2,618	2,013	95	240	129	**7,915**	(32)	**7,883**
Net cash inflow from investing activities	740	(2,945)	(295)	(1,310)	5,632	(416)	(7,357)	**(5,951)**	1,361	**(4,590)**
Net cash inflow from financing activities	(819)	219	(2,325)	(704)	(5,727)	170	7,228	**(1,958)**	-	**(1,958)**
Net increase (decrease) in cash and cash equivalents	7	8	(2)	(1)	-	(6)	-	**6**	1,329	**1,335**
Exchange movements	-	-	-	-	5	(1)	1	**5**	(69)	**(64)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Net cash and cash equivalents at start of year	(5)	154	2	4	17	1	(1)	**172**	924	**1,096**
Net cash and cash equivalents at end of year (i)	2	162	-	3	22	(6)	-	**183**	2,184	**2,367**

(i) Net of bank overdrafts

Consolidating schedules as at March 31, 2016	National Grid USA parent co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	(2)	1,279	338	1,008	725	-	16	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	(4)	8,246	2,119	2,868	2,577	-	70	25	5	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	19,608	3	2	-	-	-	-	-	-	-
Non-current regulatory assets	-	1,309	134	612	533	-	6	2	-	-
Other non-current assets	51	301	18	17	15	-	2	-	-	-
Intercompany receivables	769	308	15	122	19	36	63	6	1	-
Inventories	-	60	4	133	32	-	-	5	-	-
Receivables and other current assets	109	560	68	404	234	-	3	1	1	-
Current regulatory assets	-	113	-	327	105	-	2	-	1	-
Financial and other investments	37	40	-	-	15	-	-	-	-	-
Cash and cash equivalents	871	6	-	6	14	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	21,439	12,225	2,698	5,497	4,269	36	162	39	8	-
Borrowings (including bank overdrafts)	(298)	-	-	-	(1)	-	-	-	-	-
Current liabilities	(12)	(614)	(62)	(534)	(276)	-	(22)	(5)	(2)	-
Current tax liabilities	42	(28)	(3)	(7)	(20)	-	(3)	(1)	1	-
Intercompany notes payables	(5,453)	(61)	(592)	(583)	(224)	(30)	(16)	(21)	3	(1)
Non-current borrowings	-	(2,779)	(372)	(798)	(845)	-	(51)	-	-	-
Other non-current liabilities	(20)	(1,676)	(95)	(433)	(385)	-	(5)	(1)	(5)	-
Deferred tax liabilities	(42)	(1,867)	(522)	(655)	(514)	-	(9)	3	1	-
Pensions and other post-retirement benefits	(4)	(676)	(13)	(257)	(182)	-	(6)	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(5,787)	(7,701)	(1,659)	(3,267)	(2,447)	(30)	(112)	(25)	(2)	(1)
Shareholders' equity	(15,652)	(4,524)	(1,039)	(2,230)	(1,822)	(6)	(50)	(8)	(4)	1
Minority interests	-	-	-	-	-	-	-	(6)	(2)	-
Total liabilities and equity	(21,439)	(12,225)	(2,698)	(5,497)	(4,269)	(36)	(162)	(39)	(8)	-

Consolidating schedules as at March 31, 2016	National Grid USA parent co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	52	2,858	425	2,339	1,309	-	32	18	17	-
Other operating income/ (expense)	577	13	(1)	11	2	-	-	1	-	-
Operating costs	(101)	(2,427)	(272)	(2,261)	(1,111)	-	(26)	(16)	(16)	-
Operating profit	528	444	152	89	200	-	6	3	1	-
Net finance costs	(23)	(132)	(13)	(46)	(46)	-	(1)	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	505	312	139	43	154	-	5	3	1	-
Taxation	38	(117)	(56)	(14)	(55)	-	(2)	(1)	(1)	-
Profit for the year	543	195	83	29	99	-	3	2	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Common dividends	-	(1)	-	-	-	-	-	-	-	-
Net income from continuing operations	543	194	83	29	99	-	3	2	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	543	194	83	29	99	-	3	2	-	-
Condensed cash flow statement										
Net cash inflow from operating activities	(174)	715	106	221	279	-	10	(1)	(3)	-
Net cash inflow from investing activities	925	(624)	(206)	(224)	(266)	-	(12)	16	-	-
Net cash inflow from financing activities	(309)	(102)	98	-	(18)	-	1	(15)	3	-
Net increase (decrease) in cash and cash equivalents	442	(11)	(2)	(3)	(5)	-	(1)	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	429	17	2	9	19	-	1	-	-	-
Net cash and cash equivalents at end of year	871	6	-	6	14	-	-	-	-	-

National Grid plc - year ended 31 March 2016

Financial information for NY PSC filing

Consolidating schedules as at March 31, 2016	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co *US GAAP company*	Total of other companies *US GAAP aggregated* +	KeySpan Consol *US GAAP company* =	National Grid USA *US GAAP* Addition of all Co's +	Consol-idation adjustments *US GAAP company + ELIM*	*Discontinued* National Grid Operations *US GAAP company* =	NGUSA + consolidated Adjustments *US GAAP Audited* +	ADJUSTMENTS =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	3,766	7,130	(1)	-	7,129	1
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	873	-	5	10,682	27,466	(2)	-	27,464	35
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	7	121	19,741	(19,616)	-	125	-
Non-current regulatory assets	-	1	-	-	2,254	4,851	(1)	-	4,850	1,038
Other non-current assets	2	951	-	20	451	1,828	(800)	-	1,028	3,809
Intercompany receivables	31	3,169	3	166	4,830	9,538	(9,507)	(3)	28	53
Inventories	-	-	-	-	246	480	1	-	481	(1)
Receivables and other current assets	-	34	-	17	931	2,362	(19)	-	2,343	(24)
Current regulatory assets	-	-	-	-	163	711	1	-	712	(37)
Financial and other investments	-	-	-	-	-	92	1	-	93	(1)
Cash and cash equivalents	-	(35)	-	-	22	884	-	-	884	-
Assets of businesses held for sale	-	-	-	-	239	239	(181)	-	58	(58)
Total assets	33	4,993	3	215	23,705	75,322	(30,124)	(3)	45,195	4,815
Borrowings (including bank overdrafts)	-	-	-	-	(938)	(1,237)	(1)	-	(1,238)	18
Current liabilities	-	(292)	(3)	(6)	(861)	(2,689)	(19)	3	(2,705)	70
Current tax liabilities	(1)	(30)	-	-	(86)	(136)	48	-	(88)	(114)
Intercompany notes payables	(50)	(3,914)	12	(65)	(1,567)	(12,562)	9,469	(12)	(3,105)	(271)
Non-current borrowings	-	-	-	-	(3,449)	(8,294)	-	-	(8,294)	209
Other non-current liabilities	-	(104)	-	(121)	(2,565)	(5,410)	69	-	(5,341)	(508)
Deferred tax liabilities	-	(213)	-	(1)	(2,033)	(5,852)	863	-	(4,989)	(3,877)
Pensions and other post-retirement benefits	-	(320)	-	-	(1,918)	(3,376)	(336)	-	(3,712)	(545)
Liabilities of businesses held for sale	-	-	-	-	(692)	(692)	669	-	(23)	23
Total liabilities	(51)	(4,873)	9	(193)	(14,109)	(40,248)	10,762	(9)	(29,495)	(4,995)
Shareholders' equity	18	(120)	(12)	(22)	(9,596)	(35,066)	19,363	12	(15,691)	180
Minority interests	-	-	-	-	-	(8)	(1)	-	(9)	-
Total liabilities and equity	(33)	(4,993)	(3)	(215)	(23,705)	(75,322)	30,124	3	(45,195)	(4,815)

National Grid plc - year ended 31 March 2016

Financial information for NY PSC filing

Consolidating schedules
as at March 31, 2016

	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co *US GAAP company*	Total of other companies *US GAAP aggregated* +	KeySpan Consol *US GAAP company* =	National Grid USA *US GAAP* Addition of all Co's +	Consol- idation adjustments *US GAAP company + ELIM*	*Discontinued* National Grid Operations *US GAAP company* =	NGUSA + consolidated Adjustments *US GAAP Audited* +	ADJUSTMENTS =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	1	2,326	51	2	3,987	13,417	(2,358)	(51)	11,008	8
Other operating income/ (expense)	-	9	-	13	184	809	(659)	-	150	(11)
Operating costs	(1)	(2,275)	(46)	(3)	(3,497)	(12,052)	2,370	46	(9,636)	(130)
Operating profit	-	60	5	12	674	2,174	(647)	(5)	1,522	(133)
Net finance costs	-	(18)	-	(10)	(237)	(526)	60	-	(466)	(17)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	42	5	2	437	1,648	(587)	(5)	1,056	(150)
Taxation	-	(4)	-	1	(183)	(394)	(8)	-	(402)	66
Profit for the year	-	38	5	3	254	1,254	(595)	(5)	654	(84)
Minority interests	-	-	-	1	-	1	(1)	-	-	-
Common dividends	-	-	-	-	-	(1)	(1,178)	-	(1,179)	1,178
Net income from continuing operations	-	38	5	4	254	1,254	(1,774)	(5)	(525)	1,094
Net income from discontinued operations	-	-	-	-	(16)	(16)	3	-	(13)	13
Net income attributable to equity shareholders	-	38	5	4	238	1,238	(1,771)	(5)	(538)	1,107

Condensed cash flow statement	Wayfinder	NG-USA Service Co.	PSEG Elec Service TSA Co	Total of other companies	KeySpan Consol	National Grid USA	Consolidation adjustments	Discontinued National Grid Operations	NGUSA + consolidated Adjustments	ADJUSTMENTS
Net cash inflow from operating activities	1	(57)	7	(52)	1,049	2,101	148	(7)	2,242	433
Net cash inflow from investing activities	-	(102)	(8)	42	(1,744)	(2,203)	(455)	8	(2,650)	(347)
Net cash inflow from financing activities	(3)	178	1	7	672	513	318	(1)	830	(74)
Net increase (decrease) in cash and cash equivalents	(2)	19	-	(3)	(23)	411	11	-	422	12
Reclassified to businesses held for sale	-	-	-	-	24	24	(12)	-	12	(12)
Net cash and cash equivalents at start of year	2	(54)	-	3	21	449	1	-	450	-
Net cash and cash equivalents at end of year	-	(35)	-	-	22	884	-	-	884	-

Consolidating schedules as at March 31, 2016	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP	+ National Grid USA *IFRS adjustments*	= NGUSA *IFRS consolidated* BPC	Group presentation and other adjustments	NGUSA *IFRS*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet					
Goodwill	7,130	506	7,636	-	7,636
Other intangible assets	-	608	608	-	608
Property, plant & equipment	27,499	(1,748)	25,751	-	25,751
Investments in subsidiaries	-	-	-	-	-
Investments	125	689	814	-	814
Non-current regulatory assets	5,888	(5,888)	-	-	-
Other non-current assets	4,837	(4,590)	247	-	247
Intercompany receivables	81	(81)	-	-	-
Inventories	480	-	480	-	480
Receivables and other current assets	2,319	95	2,414	-	2,414
Current regulatory assets	675	(675)	-	-	-
Financial and other investments	92	709	801	-	801
Cash and cash equivalents	884	(722)	162	-	162
Assets of businesses held for sale	-	-	-	-	-
Total assets	50,010	(11,097)	38,913	-	38,913
Borrowings (including bank overdrafts)	(1,220)	(196)	(1,416)	-	(1,416)
Current liabilities	(2,635)	329	(2,306)	-	(2,306)
Current tax liabilities	(202)	(121)	(323)	-	(323)
Intercompany notes payables	(3,376)	75	(3,301)	-	(3,301)
Non-current borrowings	(8,085)	(273)	(8,358)	-	(8,358)
Other non-current liabilities	(5,849)	3,493	(2,356)	-	(2,356)
Deferred tax liabilities	(8,866)	5,717	(3,149)	-	(3,149)
Pensions and other post-retirement benefits	(4,257)	383	(3,874)	-	(3,874)
Liabilities of businesses held for sale	-	-	-	-	-
Total liabilities	(34,490)	9,407	(25,083)	-	(25,083)
Shareholders' equity	(15,511)	1,691	(13,820)	-	(13,820)
Minority interests	(9)	(1)	(10)	-	(10)
Total liabilities and equity	(50,010)	11,097	(38,913)	-	(38,913)

Consolidating schedules as at March 31, 2016	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP	+	National Grid USA *IFRS adjustments*	=	NGUSA *IFRS consolidated* BPC	Group presentation and other adjustments	NGUSA *IFRS*
	$'m		*$'m*		*$'m*	*$'m*	*$'m*
Condensed income statement							
Revenue	11,016		104		11,120	-	11,120
Other operating income/ (expense)	139		(64)		75	-	75
Operating costs	(9,766)		334		(9,432)	-	(9,432)
Operating profit	1,389		374		1,763	-	1,763
Net finance costs	(483)		(136)		(619)	-	(619)
Share of post-tax results of joint ventures	-		-		-	20	20
Dividend income (expense)	-		20		20	(20)	-
Profit before taxation	906		258		1,164	-	1,164
Taxation	(336)		(78)		(414)	-	(414)
Profit for the year	570		180		750	-	750
Minority interests	-		(1)		(1)	-	(1)
Common dividends	(1)		1		-	-	-
Net income from continuing operations	569		180		749	-	749
Net income from discontinued operations	-		-		-	-	-
Net income attributable to equity shareholders	569		180		749	-	749

Condensed cash flow statement							
Net cash inflow from operating activities	2,675		59		2,734	-	2,734
Net cash inflow from investing activities	(2,997)		52		(2,945)	-	(2,945)
Net cash inflow from financing activities	756		(537)		219	-	219
Net increase (decrease) in cash and cash equivalents	434		(426)		8	-	8
Reclassified to businesses held for sale	-		-		-	-	-
Net cash and cash equivalents at start of year	450		(296)		154	-	154
Net cash and cash equivalents at end of year	884		(722)		162	-	162

Consolidating schedules
as at March 31, 2016

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	*Subtotal KeySpan Stand Alone Audited F/S US GAAP company*	*EnergyNorth Natural Gas, Inc US GAAP company*	*National Grid NE Holdings 2, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	1,451	1,018	396	54	-	2,919	-	-	-
Property, plant & equipment	3,604	2,877	2,746	618	693	10,538	-	-	8
Investments	-	-	-	-	1	1	-	1,770	-
Non-current regulatory assets	1,276	575	164	239	-	2,254	-	-	-
Other non-current assets	215	6	5	2	11	239	-	26	9
Intercompany receivables	583	6	5	25	418	1,037	16	-	1
Inventories	82	34	58	10	62	246	-	-	-
Receivables and other current assets	375	209	218	49	14	865	-	-	-
Current regulatory assets	19	-	137	7	-	163	-	-	-
Cash and cash equivalents	4	2	5	-	-	11	-	-	4
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	7,609	4,727	3,734	1,004	1,199	18,273	16	1,796	22
Borrowings (including bank overdrafts)	(811)	(100)	(10)	-	-	(921)	-	-	-
Current liabilities	(264)	(151)	(130)	(105)	(62)	(712)	-	-	(1)
Current tax liabilities	(16)	(27)	(8)	(1)	(59)	(111)	-	-	-
Intercompany notes payables	(115)	(405)	(365)	(23)	(200)	(1,108)	(15)	(69)	(24)
Non-current borrowings	(1,224)	(500)	(611)	(125)	(293)	(2,753)	-	-	-
Other non-current liabilities	(1,072)	(522)	(661)	(119)	(102)	(2,476)	-	6	-
Deferred tax liabilities	(904)	(686)	(489)	(163)	(127)	(2,369)	-	4	(3)
Pensions and other post-retirement benefits	(222)	(244)	(86)	(65)	-	(617)	-	2	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	(4,628)	(2,635)	(2,360)	(601)	(843)	(11,067)	(15)	(57)	(28)
Shareholders' equity	(2,981)	(2,092)	(1,374)	(403)	(356)	(7,206)	(1)	(1,739)	6
Total liabilities and equity	(7,609)	(4,727)	(3,734)	(1,004)	(1,199)	(18,273)	(16)	(1,796)	(22)

Consolidating schedules
as at March 31, 2016

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	*Subtotal KeySpan Stand Alone Audited F/S US GAAP company*	*EnergyNorth Natural Gas, Inc US GAAP company*	*National Grid NE Holdings 2, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement									
Revenue	1,317	934	986	232	494	3,963	-	-	6
Other operating income/ (expense)	133	(4)	(2)	(1)	3	129	-	64	-
Operating costs	(1,174)	(778)	(849)	(199)	(430)	(3,430)	-	(1)	(9)
Operating profit	276	152	135	32	67	662	-	63	(3)
Net finance costs	(54)	(55)	(21)	(9)	(32)	(171)	-	(1)	-
Profit before taxation	222	97	114	23	35	491	-	62	(3)
Taxation	(90)	(41)	(46)	(9)	(23)	(209)	-	2	1
Profit for the year	132	56	68	14	12	282	-	64	(2)
Net income from continuing operations	132	56	68	14	12	282	-	64	(2)
Net income from discontinued operations	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	132	56	68	14	12	282	-	64	(2)
Condensed cash flow statement									
Net cash inflow from operating activities	271	357	275	64	134	1,101	-	(15)	(3)
Net cash inflow from investing activities	(823)	(264)	(343)	(73)	225	(1,278)	-	2	-
Net cash inflow from financing activities	552	(94)	70	9	(359)	178	-	13	4
Net increase (decrease) in cash and cash equivalents	-	(1)	2	-	-	1	-	-	1
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	4	3	3	-	-	10	-	-	3
Net cash and cash equivalents at end of year	4	2	5	-	-	11	-	-	4

Consolidating schedules
as at March 31, 2016

	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*National Grid North East Ventures Inc. US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	2	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	(4)	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	-	-	-	8	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	-	2	-	-	-	8	-	-	(4)	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-	-	-	1
Intercompany notes payables	-	(4)	-	-	-	(10)	7	-	8	(5)
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	(4)	-	-	-	(10)	7	-	8	(4)
Shareholders' equity	-	2	-	-	-	2	(7)	-	(4)	4
Total liabilities and equity	-	(2)	-	-	-	(8)	-	-	4	-

Consolidating schedules
as at March 31, 2016

	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*National Grid North East Ventures Inc. US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	-	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	-	-	-	-	-
Operating costs	-	-	-	-	-	-	-	-	-	-
Operating profit	-	-	-	-	-	-	-	-	-	-
Net finance costs	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	-	-	-	-	-	-	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	-	-	-	-	-	-	-	-	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	-	-	-	-	-	-	-	-

	PCC Land Company, Inc.	*Philadelphia Coke Co., Inc*	*KeySpan C.I. I, LTD*	*KeySpan UK Limited*	*KeySpan C.I. II, LTD*	*KeySpan International Corp*	*National Grid North East Ventures Inc.*	*Northeast Gas Markets LLC*	*Nicodama Beheer V.B.V.*	*KeySpan Energy Devlp Co (NS)*
Condensed cash flow statement										
Net cash inflow from operating activities	-	-	-	-	-	1	(1)	-	-	-
Net cash inflow from investing activities	-	-	1	-	-	-	1	-	-	-
Net cash inflow from financing activities	-	-	(1)	-	-	(1)	-	-	-	-
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2016

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*National Grid LNG LLC US GAAP company*	*National Grid LNG GP, LLC US GAAP company*	*National Grid LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*National Grid Development Holdings Corp. US GAAP company*	*National Grid Islander East Pipeline, LLC US GAAP company*	*National Grid Millennium Pipeline LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	49	-	-	-	74	-	-
Investments	5	(8)	(1)	-	-	47	-	192	-	112
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	2	-	14	2	(39)
Intercompany receivables	-	2	-	15	-	-	-	8	-	8
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	1	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	5	(6)	(1)	65	-	49	-	288	2	81
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	(1)	-	-	-	-	-	-
Current tax liabilities	-	-	-	(1)	-	(1)	-	(1)	-	(7)
Intercompany notes payables	(13)	4	(6)	(11)	-	(29)	-	404	7	78
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	(2)	-	-	-	(4)	-	2
Deferred tax liabilities	-	-	-	-	-	(4)	-	(30)	-	1
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(13)	4	(6)	(15)	-	(34)	-	369	7	74
Shareholders' equity	8	2	7	(50)	-	(15)	-	(657)	(9)	(155)
Total liabilities and equity	(5)	6	1	(65)	-	(49)	-	(288)	(2)	(81)

Consolidating schedules
as at March 31, 2016

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*National Grid LNG LLC US GAAP company*	*National Grid LNG GP, LLC US GAAP company*	*National Grid LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*National Grid Development Holdings Corp. US GAAP company*	*National Grid Islander East Pipeline, LLC US GAAP company*	*National Grid Millennium Pipeline LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	8	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	6	-	22	-	26
Operating costs	-	-	-	(9)	-	-	-	(12)	-	-
Operating profit	-	-	-	(1)	-	6	-	10	-	26
Net finance costs	-	-	-	-	-	(1)	-	2	-	-
Profit before taxation	-	-	-	(1)	-	5	-	12	-	26
Taxation	-	-	-	6	-	(6)	-	5	-	(11)
Profit for the year	-	-	-	5	-	(1)	-	17	-	15
Net income from continuing operations	-	-	-	5	-	(1)	-	17	-	15
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	-	5	-	(1)	-	17	-	15

	KeySpan Luxembourg S.A.R.L.	*KeySpan CI Midstream Limited*	*KeySpan Midstream, Inc.*	*National Grid LNG LLC*	*National Grid LNG GP, LLC*	*National Grid LNG LP, LLC*	*Seneca-Upshur Petroleum, Inc*	*National Grid Development Holdings Corp.*	*National Grid Islander East Pipeline, LLC*	*National Grid Millennium Pipeline LLC*
Condensed cash flow statement										
Net cash inflow from operating activities	-	-	-	3	-	(3)	-	(12)	-	19
Net cash inflow from investing activities	-	-	-	(4)	-	-	-	7	-	(23)
Net cash inflow from financing activities	-	-	-	1	(1)	3	-	5	-	4
Net increase (decrease) in cash and cash equivalents	-	-	-	-	(1)	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	1	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2016

	National Grid IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*National Grid Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions, LLC US GAAP company*	*National Grid Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	7	-	-	-	-	-	-
Investments	-	-	24	-	-	92	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	5	-	1	-	-	5	-	1	-	-
Intercompany receivables	-	-	48	1	26	(1)	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	3	6	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	6	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	5	-	82	14	26	96	-	1	-	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	(2)	(5)	-	(3)	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-	-	-	-
Intercompany notes payables	6	-	(24)	16	8	8	-	(1)	-	-
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	1	(1)	-	(1)	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	6	-	(25)	10	8	4	-	(1)	-	-
Shareholders' equity	(11)	-	(57)	(24)	(34)	(100)	-	-	-	-
Total liabilities and equity	(5)	-	(82)	(14)	(26)	(96)	-	(1)	-	-

Consolidating schedules
as at March 31, 2016

	National Grid IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*National Grid Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions, LLC US GAAP company*	*National Grid Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	9	6	-	-	-	-	-	-
Other operating income/ (expense)	7	-	-	-	-	1	-	-	-	-
Operating costs	-	-	(9)	(5)	-	-	-	-	-	-
Operating profit	7	-	-	1	-	1	-	-	-	-
Net finance costs	-	-	-	-	-	-	-	-	-	-
Profit before taxation	7	-	-	1	-	1	-	-	-	-
Taxation	(3)	-	-	-	-	1	-	-	-	-
Profit for the year	4	-	-	1	-	2	-	-	-	-
Net income from continuing operations	4	-	-	1	-	2	-	-	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	4	-	-	1	-	2	-	-	-	-
Condensed cash flow statement										
Net cash inflow from operating activities	11	-	(4)	2	-	-	-	-	-	-
Net cash inflow from investing activities	(11)	-	4	(2)	-	-	-	-	-	-
Net cash inflow from financing activities	-	-	1	-	-	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	-	-	1	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	5	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	6	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2016

	National Grid Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan Energy Corporation US GAAP company*	*National Grid Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Corporation US GAAP company*	*National Grid Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet							
Goodwill	-	-	-	-	-	846	-
Property, plant & equipment	1	-	-	-	-	3	-
Investments	(26)	-	3,562	-	-	7,097	-
Non-current regulatory assets	(1)	-	-	-	-	-	-
Other non-current assets	30	1	19	1	-	531	104
Intercompany receivables	251	-	-	-	-	7,027	753
Inventories	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	20
Current regulatory assets	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-
Total assets	255	1	3,581	1	-	15,504	877
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-
Current liabilities	(2)	-	-	-	-	(123)	(19)
Current tax liabilities	(2)	-	2	-	-	3	(1)
Intercompany notes payables	(330)	(128)	(332)	(1)	-	(2,424)	(1,237)
Non-current borrowings	-	-	-	-	-	(713)	-
Other non-current liabilities	3	-	-	-	-	20	(31)
Deferred tax liabilities	-	-	-	-	-	10	2
Pensions and other post-retirement benefits	-	-	-	-	-	(2,507)	47
Liabilities of businesses held for sale	-	-	-	-	-	-	-
Total liabilities	(331)	(128)	(330)	(1)	-	(5,734)	(1,239)
Shareholders' equity	76	127	(3,251)	-	-	(9,770)	362
Total liabilities and equity	(255)	(1)	(3,581)	(1)	-	(15,504)	(877)

Consolidating schedules
as at March 31, 2016

	National Grid Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan Energy Corporation US GAAP company*	*National Grid Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Corporation US GAAP company*	*National Grid Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement							
Revenue	-	-	-	-	-	-	-
Other operating income/ (expense)	2	-	133	(1)	-	260	-
Operating costs	1	-	-	-	-	(25)	(23)
Operating profit	3	-	133	(1)	-	235	(23)
Net finance costs	(4)	-	(2)	-	-	(71)	(5)
Profit before taxation	(1)	-	131	(1)	-	164	(28)
Taxation	7	-	1	-	-	22	8
Profit for the year	6	-	132	(1)	-	186	(20)
Net income from continuing operations	6	-	132	(1)	-	186	(20)
Net income from discontinued operations	-	-	-	-	-	-	-
Net income attributable to equity shareholders	6	-	132	(1)	-	186	(20)

	National Grid Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan Energy Corporation US GAAP company*	*National Grid Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Corporation US GAAP company*	*National Grid Electric Services LLC US GAAP company*
Condensed cash flow statement							
Net cash inflow from operating activities	(5)	-	(18)	(3)	-	237	(7)
Net cash inflow from investing activities	6	-	-	-	-	(297)	-
Net cash inflow from financing activities	(1)	-	18	3	-	57	7
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	(3)	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	3	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2016

	National Grid Engineering & Surveying Inc. US GAAP company	*National Grid Energy Trading Services LLC US GAAP company*	*National Grid Exploration & Production US GAAP company*	*Total of Other (Unaudited) KeySpan Companies US GAAP company*	*Total of All KeySpan Companies US GAAP company*	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	*KeySpan Consolidated US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet								
Goodwill	-	-	-	846	3,765	1	-	3,766
Property, plant & equipment	1	-	-	145	10,683	(1)	-	10,682
Investments	-	-	-	12,862	12,863	(12,742)	-	121
Non-current regulatory assets	-	-	-	(1)	2,253	1	-	2,254
Other non-current assets	38	1	-	751	990	(435)	(104)	451
Intercompany receivables	158	3	-	8,324	9,361	(3,778)	(753)	4,830
Inventories	-	-	-	-	246	-	-	246
Receivables and other current assets	-	-	-	30	895	56	(20)	931
Current regulatory assets	-	-	-	-	163	-	-	163
Cash and cash equivalents	-	-	-	10	21	1	-	22
Assets of businesses held for sale	-	-	-	-	-	239	-	239
Total assets	197	4	-	22,967	41,240	(16,658)	(877)	23,705
Borrowings (including bank overdrafts)	-	-	-	-	(921)	(17)	-	(938)
Current liabilities	(7)	-	-	(163)	(875)	(5)	19	(861)
Current tax liabilities	1	-	-	(6)	(117)	30	1	(86)
Intercompany notes payables	(280)	45	-	(4,352)	(5,460)	2,656	1,237	(1,567)
Non-current borrowings	-	-	-	(713)	(3,466)	17	-	(3,449)
Other non-current liabilities	(8)	-	-	(14)	(2,490)	(106)	31	(2,565)
Deferred tax liabilities	(1)	-	-	(22)	(2,391)	360	(2)	(2,033)
Pensions and other post-retirement benefits	70	1	-	(2,387)	(3,004)	1,133	(47)	(1,918)
Liabilities of businesses held for sale	-	-	-	-	-	(692)	-	(692)
Total liabilities	(225)	46	-	(7,657)	(18,724)	3,376	1,239	(14,109)
Shareholders' equity	28	(50)	-	(15,310)	(22,516)	13,282	(362)	(9,596)
Total liabilities and equity	(197)	(4)	-	(22,967)	(41,240)	16,658	877	(23,705)

Consolidating schedules
as at March 31, 2016

	National Grid Engineering & Surveying Inc. US GAAP company	*National Grid Energy Trading Services LLC US GAAP company*	*National Grid Exploration & Production US GAAP company*	*Total of Other (Unaudited) KeySpan Companies US GAAP company*	*Total of All KeySpan Companies US GAAP company*	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	*KeySpan Consolidated US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement								
Revenue	62	-	-	91	4,054	(67)	-	3,987
Other operating income/ (expense)	1	-	-	521	650	(466)	-	184
Operating costs	(63)	-	-	(155)	(3,585)	65	23	(3,497)
Operating profit	-	-	-	457	1,119	(468)	23	674
Net finance costs	-	-	-	(82)	(253)	11	5	(237)
Profit before taxation	-	-	-	375	866	(457)	28	437
Taxation	1	-	-	34	(175)	-	(8)	(183)
Profit for the year	1	-	-	409	691	(457)	20	254
Net income from continuing operations	1	-	-	409	691	(457)	20	254
Net income from discontinued operations	-	-	-	-	-	(16)	-	(16)
Net income attributable to equity shareholders	1	-	-	409	691	(473)	20	238
Condensed cash flow statement								
Net cash inflow from operating activities	(17)	-	-	185	1,286	(244)	7	1,049
Net cash inflow from investing activities	-	-	-	(316)	(1,594)	(150)	-	(1,744)
Net cash inflow from financing activities	17	-	-	129	307	372	(7)	672
Net increase (decrease) in cash and cash equivalents	-	-	-	(2)	(1)	(22)	-	(23)
Reclassified to businesses held for sale	-	-	-	-	-	24	-	24
Net cash and cash equivalents at start of year	-	-	-	12	22	(1)	-	21
Net cash and cash equivalents at end of year	-	-	-	10	21	1	-	22

Consolidating schedules as at March 31, 2016	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	British Transco Capital Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***
Condensed balance sheet															
Goodwill	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Other intangible assets	343	-	-	-	20	-	-	-	-	**363**	293	-	-	-	**293**
Property, plant & equipment	18,152	-	-	-	(21)	65	-	(7)	-	**18,189**	16,871	-	-	-	**16,871**
Investments in subsidiaries	25	(15)	(2)	(4)	(2)	-	-	-	(2)	**-**	-	-	-	-	**-**
Investments	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Other non-current assets	1,517	-	-	-	-	-	-	(9)	-	**1,508**	646	-	-	-	**646**
Intercompany receivables	7,887	4	8	-	158	36	-	-	1	**8,094**	-	-	-	-	**-**
Inventories	38	-	-	-	-	-	-	-	-	**38**	87	-	-	-	**87**
Receivables and other current assets	716	-	-	-	-	4	-	5	-	**725**	409	-	-	-	**409**
Regulatory assets	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Financial and other investments	167	-	-	-	-	-	-	-	-	**167**	611	-	-	-	**611**
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	**-**	3	-	-	-	**3**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total assets	28,845	(11)	6	(4)	155	105	-	(11)	(1)	**29,084**	18,920	-	-	-	**18,920**
Borrowings (including bank overdrafts)	(866)	-	(7)	-	-	-	-	-	-	**(873)**	(509)	-	-	-	**(509)**
Current liabilities	(1,086)	-	-	-	(15)	(32)	-	(7)	-	**(1,140)**	(1,375)	-	-	-	**(1,375)**
Current tax liabilities	(49)	-	-	-	-	-	-	-	-	**(49)**	8	-	-	-	**8**
Intercompany payables	(3,613)	932	301	-	(12)	(4)	-	4	(3)	**(2,395)**	(1,312)	-	-	-	**(1,312)**
Non-current borrowings	(8,736)	(944)	(300)	-	-	-	-	-	-	**(9,980)**	(8,585)	-	-	-	**(8,585)**
Other non-current liabilities	(2,420)	-	-	-	-	(60)	-	7	-	**(2,473)**	(1,608)	-	-	-	**(1,608)**
Deferred tax liabilities	(2,226)	-	-	-	-	(1)	-	1	2	**(2,224)**	(1,163)	-	-	-	**(1,163)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	**-**	(389)	-	-	-	**(389)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total liabilities	(18,996)	(12)	(6)	-	(27)	(97)	-	5	(1)	**(19,134)**	(14,933)	-	-	-	**(14,933)**
Shareholders' equity	(9,849)	23	-	4	(128)	(4)	-	5	2	**(9,947)**	(3,987)	-	-	-	**(3,987)**
Minority interests	-	-	-	-	-	(4)	-	1	-	**(3)**	-	-	-	-	**-**
Total liabilities and equity	(28,845)	11	(6)	4	(155)	(105)	-	11	1	**(29,084)**	(18,920)	-	-	-	**(18,920)**

Consolidating schedules as at March 31, 2016	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	British Transco Capital Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***
Condensed income statement															
Revenue	4,566	-	-	-	1	31	-	-	-	**4,598**	5,862	-	-	-	**5,862**
Other operating income	49	-	-	-	-	-	-	-	-	**49**	2	-	-	-	**2**
Operating costs	(2,560)	-	-	-	7	(24)	-	-	(1)	**(2,578)**	(4,152)	-	-	-	**(4,152)**
Operating profit	2,055	-	-	-	8	7	-	-	(1)	**2,069**	1,712	-	-	-	**1,712**
Net finance costs	(361)	1	-	-	1	-	-	-	-	**(359)**	(205)	-	-	-	**(205)**
Dividend income	4	-	-	-	-	(4)	-	-	-	**-**	-	-	-	-	**-**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Profit before taxation	1,698	1	-	-	9	3	-	-	(1)	**1,710**	1,507	-	-	-	**1,507**
Taxation	(119)	-	-	-	(2)	(1)	-	-	-	**(122)**	(170)	-	-	-	**(170)**
Profit for the year	1,579	1	-	-	7	2	-	-	(1)	**1,588**	1,337	-	-	-	**1,337**
Minority interests	-	-	-	-	-	(3)	-	-	-	**(3)**	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income from continuing operations	1,579	1	-	-	7	(1)	-	-	(1)	**1,585**	1,337	-	-	-	**1,337**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income attributable to equity shareholders	1,579	1	-	-	7	(1)	-	-	(1)	**1,585**	1,337	-	-	-	**1,337**

Condensed cash flow statement															
Net cash inflow from operating activities	2,569	-	-	-	7	37	-	4	1	**2,618**	2,013	-	-	-	**2,013**
Net cash inflow from investing activities	(835)	71	20	-	2	(22)	469	-	-	**(295)**	(1,310)	-	-	-	**(1,310)**
Net cash inflow from financing activities	(1,740)	(71)	(20)	-	(8)	(13)	(469)	(4)	-	**(2,325)**	(704)	-	-	-	**(704)**
Net increase in cash and cash equivalents	(6)	-	-	-	1	2	-	-	1	**(2)**	(1)	-	-	-	**(1)**
Exchange movements	-	-	-	-	-	1	-	-	(1)	**-**	-	-	-	-	**-**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net cash and cash equivalents at start of year	6	-	-	-	(1)	(3)	-	-	-	**2**	4	-	-	-	**4**
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	-	-	**-**	3	-	-	-	**3**

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	National Grid Group Finance plc Consolidated *IFRS company*	National Grid Holdings One plc *IFRS company*	Lattice Group plc *IFRS company*	National Grid Gas Holdings plc *IFRS company*	National Grid Commercial Holdings Ltd *IFRS company*	Grain LNG Construction *IFRS company*	National Grid Property Portfolio Ltd *IFRS company*	National Grid Inter - connectors Ltd *IFRS company*	National Grid Inter - connectors Holding Lt *IFRS company*	NG NSN Link Inter - connectors Ltd *IFRS company*	NG (US) Holdings Limited Adjs Consol *IFRS company*	National Grid (US) Investments No 4 Cons *IFRS company*	National Grid (US) Investments No 2 *IFRS company*	National Grid USA Holdings Inc *IFRS company*	NGT Holding Company (IOM) Ltd Consol'd *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet															
Goodwill	-	-	-	-	-	-	-	-	-	-	4	-	-	-	-
Other intangible assets	-	-	-	-	7	3	-	47	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	9	1,174	60	155	-	35	-	-	-	-	-
Investments in subsidiaries	-	19,037	971	10,232	84	-	(383)	-	-	-	8,956	27,682	-	10,486	167
Investments	-	-	-	-	-	-	85	-	424	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	57	-	-	-	-	-	-	-	-	-	-	-	35	-
Intercompany receivables	3,969	8,412	2,679	446	1,265	-	(327)	201	46	-	32	17,568	3,421	6,635	1,563
Inventories	-	-	-	-	-	12	12	-	-	-	-	-	-	-	-
Receivables and other current assets	-	19	-	-	5	29	5	13	3	74	-	110	-	-	69
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	3	-	-	-	-	-	-	1	-	-	-	-	283	550
Cash and cash equivalents	-	1	-	-	-	(4)	11	-	-	-	-	-	-	-	2
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,969	27,529	3,650	10,678	1,370	1,214	(537)	416	474	109	8,992	45,360	3,421	17,439	2,351
Borrowings (including bank overdrafts)	(111)	(23)	-	-	-	(24)	-	-	-	-	-	-	-	(900)	-
Current liabilities	-	(78)	(7)	-	(58)	(43)	(34)	(28)	(10)	1	-	(105)	-	(80)	(125)
Current tax liabilities	-	(92)	-	-	(7)	(11)	(8)	-	-	-	-	(16)	-	179	-
Intercompany payables	(82)	(20,242)	(184)	(8,073)	(61)	(189)	6	(43)	(252)	(41)	(18)	(12,699)	(16)	(3,405)	(115)
Non-current borrowings	(2,850)	-	-	-	-	(129)	-	-	-	-	-	-	-	(4,004)	-
Other non-current liabilities	-	-	-	-	(11)	(21)	(336)	(1)	-	(9)	-	-	-	(263)	-
Deferred tax liabilities	-	-	3	-	4	(132)	20	(17)	-	(11)	-	-	-	83	-
Pensions and other post-retirement benefits	-	-	(15)	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(3,043)	(20,435)	(203)	(8,073)	(133)	(549)	(352)	(89)	(262)	(60)	(18)	(12,820)	(16)	(8,390)	(240)
Shareholders' equity	(926)	(7,094)	(3,447)	(2,605)	(1,237)	(665)	889	(327)	(212)	(49)	(8,974)	(32,540)	(3,405)	(9,049)	(2,111)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(3,969)	(27,529)	(3,650)	(10,678)	(1,370)	(1,214)	537	(416)	(474)	(109)	(8,992)	(45,360)	(3,421)	(17,439)	(2,351)

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	National Grid Group Finance plc Consolidated *IFRS company*	National Grid Holdings One plc *IFRS company*	Lattice Group plc *IFRS company*	National Grid Gas Holdings plc *IFRS company*	National Grid Commercial Holdings Ltd *IFRS company*	Grain LNG Construction *IFRS company*	National Grid Property Portfolio Ltd *IFRS company*	National Grid Inter - connectors Ltd *IFRS company*	National Grid Inter - connectors Holding Lt *IFRS company*	NG NSN Link Inter - connectors Ltd *IFRS company*	NG (US) Holdings Limited Adjs Consol *IFRS company*	National Grid (US) Investments No 4 Cons *IFRS company*	National Grid (US) Investments No 2 *IFRS company*	National Grid USA Holdings Inc *IFRS company*	NGT Holding Company (IOM) Ltd Consol'd *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement															
Revenue	-	-	-	-	-	294	18	213	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	75	-	3	-	-	-	-	-	-
Operating costs	-	(1,977)	-	-	(378)	(190)	(7)	(33)	(13)	-	(655)	582	-	(3)	16
Operating profit	-	(1,977)	-	-	(378)	104	86	180	(10)	-	(655)	582	-	(3)	16
Net finance costs	11	3,167	940	916	500	(8)	(15)	2	75	(9)	(633)	43	29	273	(16)
Dividend income	-	3,299	914	914	476	-	-	-	71	-	-	-	-	358	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	(6)	-	-	-	-	-	-	-	-
Profit before taxation	11	4,489	1,854	1,830	598	96	65	182	136	(9)	(1,288)	625	29	628	-
Taxation	(1)	21	(3)	21	-	(5)	(3)	(34)	-	2	(22)	(2)	(6)	48	-
Profit for the year	10	4,510	1,851	1,851	598	91	62	148	136	(7)	(1,310)	623	23	676	-
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	10	4,510	1,851	1,851	598	91	62	148	136	(7)	(1,310)	623	23	676	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	10	4,510	1,851	1,851	598	91	62	148	136	(7)	(1,310)	623	23	676	-
Condensed cash flow statement															
Net cash inflow from operating activities	(4)	(269)	11	18	40	179	168	138	(7)	(13)	-	1	(2)	(6)	(22)
Net cash inflow from investing activities	149	1,581	940	916	150	(41)	(126)	(6)	7	(29)	(9,454)	9,183	29	475	16
Net cash inflow from financing activities	(145)	(1,311)	(951)	(934)	(190)	(141)	(42)	(133)	-	42	9,454	(9,186)	(27)	(470)	7
Net increase in cash and cash equivalents	-	1	-	-	-	(3)	-	(1)	-	-	-	(2)	-	(1)	1
Exchange movements	-	(1)	-	-	-	-	1	1	-	-	-	-	-	1	1
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	1	-	-	-	(1)	10	-	-	-	-	2	-	-	-
Net cash and cash equivalents at end of year	-	1	-	-	-	(4)	11	-	-	-	-	-	-	-	2

Consolidating schedules

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	NG International Ltd (formerly NGC1) *IFRS company*	National Grid International Limited Statutory Adj *IFRS company*	National Grid Insurance Co (Ireland) Ltd *IFRS company*	National Grid Twenty Three Limited *IFRS company*	E_NGHLCON - National Grid Holdings Ltd Consolidated *IFRS company*	NG Jersey Ltd *IFRS company*	National Grid Jersey Investments Ltd *IFRS company*	National Grid Carbon Ltd *IFRS company*	National Grid US Insurance *IFRS company*	NatGrid One Limited Consolidated *IFRS company*	BritNed Consolidated *IFRS company*	National Grid Seventeen Limited *IFRS company*	NGT Luxembourg One Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet														
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	**4**
Other intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	**57**
Property, plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	**1,433**
Investments in subsidiaries	345	566	-	8,361	12,469	3,648	6,892	-	-	1,849	-	-	-	**111,362**
Investments	-	-	-	-	-	-	-	-	-	-	(44)	-	-	**465**
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	**92**
Intercompany receivables	86	-	-	-	12,229	2,352	2	2	-	2,306	-	4,107	9,061	**76,055**
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	**24**
Receivables and other current assets	-	-	9	-	-	-	-	11	11	-	-	-	-	**358**
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial and other investments	-	-	55	-	-	-	-	(2)	52	-	-	-	-	**942**
Cash and cash equivalents	-	-	1	-	-	-	-	(3)	14	-	-	-	-	**22**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Total assets	431	566	65	8,361	24,698	6,000	6,894	8	77	4,155	(44)	4,107	9,061	**190,814**
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	(1)	-	-	-	-	-	**(1,059)**
Current liabilities	-	-	(24)	-	(19)	-	-	-	(7)	-	-	-	-	**(617)**
Current tax liabilities	-	-	-	-	-	-	-	-	(4)	-	-	-	(13)	**28**
Intercompany payables	(369)	-	-	(3,317)	(15,930)	(1)	(2)	(56)	-	(2,315)	-	(353)	(306)	**(68,059)**
Non-current borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	**(6,983)**
Other non-current liabilities	-	-	-	-	-	-	-	-	(6)	-	-	-	-	**(647)**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**(50)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	**(15)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities	(369)	-	(24)	(3,317)	(15,949)	(1)	(2)	(57)	(17)	(2,315)	-	(353)	(319)	**(77,402)**
Shareholders' equity	(62)	(566)	(41)	(5,044)	(8,749)	(5,999)	(6,892)	49	(60)	(1,840)	44	(3,754)	(8,742)	**(113,412)**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities and equity	(431)	(566)	(65)	(8,361)	(24,698)	(6,000)	(6,894)	(8)	(77)	(4,155)	44	(4,107)	(9,061)	**(190,814)**

Consolidating schedules

as at March 31, 2016

	NG International Ltd (formerly NGC1) *IFRS company*	National Grid International Limited Statutory Adj *IFRS company*	National Grid Insurance Co (Ireland) Ltd *IFRS company*	National Grid Twenty Three Limited *IFRS company*	E_NGHLCON - National Grid Holdings Ltd Consolidated *IFRS company*	NG Jersey Ltd *IFRS company*	National Grid Jersey Investments Ltd *IFRS company*	National Grid Carbon Ltd *IFRS company*	National Grid US Insurance *IFRS company*	NatGrid One Limited Consolidated *IFRS company*	BritNed Consolidated *IFRS company*	National Grid Seventeen Limited *IFRS company*	NGT Luxembourg One Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement														
Revenue	-	-	-	-	-	-	-	12	-	-	-	-	-	**537**
Other operating income	-	-	-	-	-	-	-	1	-	-	-	-	-	**79**
Operating costs	(9)	(108)	3	73	(3)	-	-	(19)	10	-	-	-	-	**(2,711)**
Operating profit	(9)	(108)	3	73	(3)	-	-	(6)	10	-	-	-	-	**(2,095)**
Net finance costs	(8)	-	-	959	485	20	-	-	-	-	-	30	94	**6,855**
Dividend income	-	-	-	1,032	464	-	-	-	-	-	-	-	-	**7,528**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	73	-	-	**67**
Profit before taxation	(17)	(108)	3	2,064	946	20	-	(6)	10	-	73	30	94	**12,355**
Taxation	2	-	-	-	6	-	-	-	(4)	-	-	(11)	(27)	**(18)**
Profit for the year	(15)	(108)	3	2,064	952	20	-	(6)	6	-	73	19	67	**12,337**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income from continuing operations	(15)	(108)	3	2,064	952	20	-	(6)	6	-	73	19	67	**12,337**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income attributable to equity shareholders	(15)	(108)	3	2,064	952	20	-	(6)	6	-	73	19	67	**12,337**
Condensed cash flow statement														
Net cash inflow from operating activities	1	(117)	2	-	(4)	-	-	(11)	10	-	-	4	(22)	**95**
Net cash inflow from investing activities	-	(1)	(3)	1,033	556	20	-	2	-	37	71	33	94	**5,632**
Net cash inflow from financing activities	(1)	117	-	(1,033)	(552)	(20)	-	6	1	(37)	(71)	(37)	(72)	**(5,727)**
Net increase in cash and cash equivalents	-	(1)	(1)	-	-	-	-	(3)	11	-	-	-	-	**-**
Exchange movements	-	1	-	-	-	-	-	-	1	-	-	-	-	**5**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net cash and cash equivalents at start of year	-	-	2	-	-	-	-	-	2	-	-	-	-	**17**
Net cash and cash equivalents at end of year	-	-	1	-	-	-	-	(3)	14	-	-	-	-	**22**

National Grid plc
IFRS to US GAAP reconciliation
as at March 31, 2016

	$'m	$'m
Profit for the year attributable to equity shareholders under IFRS		3,820
Adjustments to conform with US GAAP		
Revenue	(130)	
Operating costs	(344)	
Net finance costs	130	
Taxation	81	
Other	(19)	
		(282)
Net income under US GAAP		3,538
Total shareholders equity under IFRS		19,485
Adjustments to conform with US GAAP		
Property, plant & equipment	2,559	
Other intangible assets	(1,231)	
Goodwill	3,017	
Regulatory assets	3,062	
Financial instruments	2,971	
Pensions and other post-retirement benefits	(383)	
Current tax liabilities	121	
Deferred taxation	(2,364)	
Other	(673)	
		7,079
Shareholders' equity under US GAAP		26,564

nationalgrid

Notice of 2012 Annual General Meeting

National Grid plc

The 2012 Annual General Meeting of National Grid plc (the 'Company') will be held at 2pm on Monday 30 July 2012 at The ICC, Broad Street, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

16 May 2012

National Grid plc, Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Resolutions

The Annual General Meeting ('AGM') will consider the following resolutions, which in the case of resolutions 20, 21, 22 and 23 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2012, the Directors' Reports and the Auditors' Report on the accounts.

2. To declare a final dividend of 25.35 pence per ordinary share (US$2.0166 per American Depositary Share) for the year ended 31 March 2012.

3. To elect Sir Peter Gershon as a Director.

4. To re-elect Steve Holliday as a Director.

5. To re-elect Andrew Bonfield as a Director.

6. To re-elect Tom King as a Director.

7. To re-elect Nick Winser as a Director.

8. To re-elect Ken Harvey as a Director.

9. To re-elect Linda Adamany as a Director.

10. To re-elect Philip Aiken as a Director.

11. To elect Nora Brownell as a Director.

12. To elect Paul Golby as a Director.

13. To elect Ruth Kelly as a Director.

14. To re-elect Maria Richter as a Director.

15. To re-elect George Rose as a Director.

16. To reappoint PricewaterhouseCoopers LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.

17. To authorise the Directors to set the auditors' remuneration.

18. To approve the Directors' Remuneration Report for the year ended 31 March 2012.

19. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the Companies Act 2006 (the '2006 Act'), to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company:

(i) up to an aggregate nominal amount of £135,577,714; and

(ii) comprising equity securities (as defined in Section 560(1) of the 2006 Act) up to a further nominal amount of £135,577,714 in connection with an offer by way of a rights issue.

This authority shall expire at the earlier of the close of the next AGM and 30 October 2013 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.

20. Subject to the passing of resolution 19 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(i) any such allotment in connection with a rights issue; and

(ii) any such allotment, otherwise than pursuant to a rights issue, of equity securities up to an aggregate nominal value of £20,336,657.

This authority shall expire at the earlier of the close of the next AGM and 30 October 2013 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly after such expiry and the Directors may allot equity securities in accordance with such offer or agreement as if the authority conferred had not expired.

21. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its ordinary shares provided that:

(i) the maximum number of ordinary shares that may be acquired is 356,929,085 being 10% of the Company's issued share capital (excluding treasury shares) as at 16 May 2012;

(ii) the minimum price per share that may be paid for any such shares is $11\frac{17}{43}$ pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average market value for an ordinary share, as derived from the London Stock Exchange Official List, for the five business days prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

This authority shall expire at the earlier of the close of the next AGM and 30 October 2013 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would or might be executed wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred had not expired.

22. To authorise the Directors, in accordance with the Company's existing Articles of Association, to call a general meeting of the Company, other than an AGM, on not less than 14 clear days' notice.

23. To amend the existing Articles of Association (as produced to the meeting and initialled by the Chairman for purposes of identification) with effect from the passing of this resolution.

The Directors believe the proposals set out in resolutions 1 to 23 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Helen Mahy,
Company Secretary & General Counsel

16 May 2012

National Grid plc
Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 20, 21, 22 and 23 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1: To receive the Annual Report and Accounts

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report and Accounts for the year ended 31 March 2012 (the 'Annual Report') and the Performance Summary will be available at the AGM. These documents are also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Registrars, see page 12 for contact details.

Resolution 2: To declare a final dividend

The Company requires shareholder consent to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 25.35 pence per ordinary share (US$2.0166 per American Depositary Share ('ADS')) will be paid on 15 August 2012 to shareholders on the register at the close of business on 1 June 2012. The dividend is to be paid in respect of each ordinary share other than those shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new ordinary shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both ordinary shares and ADSs are paid the declared dividend on the same day.

Resolutions 3 – 15: Election and re-election of Directors

The Company's Articles of Association require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Sir Peter Gershon on 1 August 2011, Ruth Kelly on 1 October 2011, Paul Golby on 1 February 2012 and Nora Brownell with effect from 1 June 2012, they will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code, it is proposed that all other Directors seek re-election at the AGM this year, with the exception of Stephen Pettit, who will be stepping down from the Board following the conclusion of the 2012 AGM.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined, other than the Chairman, each of the Non-executive Directors at year end to be independent notwithstanding that Ken Harvey, George Rose and Stephen Pettit have served on the Board for more than nine years.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combines to provide an exceptional balance of skills and knowledge which is of great benefit to the Company, and, therefore, the Board recommends the re-election of all Directors, with the exception of Stephen Pettit.

Key:

- A = Audit Committee
- E = Executive Committee
- F = Finance Committee
- N = Nominations Committee
- R = Remuneration Committee
- R&R = Risk & Responsibility Committee
- (ch) = chairman of Committee

Resolution 3: To elect Sir Peter Gershon CBE Chairman

Appointment to the Board: 1 August 2011 as Deputy Chairman, Chairman with effect from 1 January 2012
Committee membership: N (ch)
Career experience: Previous appointments include Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce and Managing Director of Marconi Electronic Systems.
External appointments: Chairman of Tate & Lyle plc, member of the UK Defence Academy Advisory Board and HM Government Efficiency Board.

Resolution 4: To re-elect Steve Holliday Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc 2001, Chief Executive with effect from January 2007
Committee membership: E (ch), F
Career experience: Formerly Executive Director of British Borneo Oil and Gas; he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping.
External appointments: Non-executive Director of Marks and Spencer Group plc and Chairman of the UK Business Council for Sustainable Energy, Crisis UK, the Technician Council and a member of the Board of Trustee Directors for Business in the Community and Infrastructure UK Advisory Council.

Resolution 5: To re-elect Andrew Bonfield Finance Director

Appointment to the Board: November 2010
Committee membership: E, F
Career experience: Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.
External appointments: Non-executive Director of Kingfisher plc.

Resolution 6: To re-elect Tom King Executive Director, US

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

Resolution 7: To re-elect Nick Winser Executive Director, UK

Appointment to the Board: April 2003
Committee membership: E
Career experience: Previously Chief Operating Officer of the US transmission business for National Grid Transco plc having joined The National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, Nick had been with Powergen since 1991 as principal negotiator on commercial matters.
External appointments: Non-executive Director of Kier Group plc and co-Chair of the Energy Research Partnership.

Resolution 8: To re-elect Ken Harvey CBE Non-executive Director and Senior Independent Director

Appointment to the Board: October 2002, appointed to Lattice Group plc board in 2000, Senior Independent Director with effect from October 2004
Committee membership: N, R (ch), R&R
Career experience: Formerly Engineering Director and then Deputy Chairman of London Electricity and Chairman and Chief Executive of NORWEB plc.
External appointments: Chairman of Pennon Group Plc.

Resolution 9: To re-elect Linda Adamany Non-executive Director

Appointment to the Board: November 2006
Committee membership: A, N, R&R
Career experience: Various executive roles for BP in both the UK and US, including Chief Executive of BP Shipping and Group Vice President and Commercial Director, BP Refining & Marketing and until April 2008, Group Vice President, BP plc.

Resolution 10: To re-elect Philip Aiken Non-executive Director

Appointment to the Board: May 2008
Committee membership: A, N, R&R
Career experience: Formerly Group President of BHP Billiton's Energy business, Executive Director of BTR plc, held senior roles in BOC Group plc and was senior advisor to Macquarie Capital (Europe) Limited.
External appointments: Chairman of Robert Walters plc, Deputy Chairman of AVEVA Group plc, Non-executive and Senior Independent Director of Kazakhmys PLC and Non-executive Director of Miclyn Express Offshore Limited and Essar Energy plc.

Resolution 11: To elect Nora Brownell Non-executive Director

Appointment to the Board: effective 1 June 2012
Committee membership: N, R, R&R
Career experience: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners.
External appointments: Board member of Comverge, Inc., Spectra Energy Partners LP and ONCOR Electric Delivery Holding Company LLC and partner in ESPY Energy Solutions, LLC.

Resolution 12: To elect Paul Golby CBE Non-executive Director

Appointment to the Board: 1 February 2012
Committee membership: N, R, R&R
Career experience: Formerly Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director. Appointed as Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON Board in December 2011.
External appointments: Non-executive Chairman of AEA Technology Group plc, Chairman of EngineeringUK, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology.

Resolution 13: To elect Ruth Kelly Non-executive Director

Appointment to the Board: 1 October 2011
Committee membership: A, F, N
Career experience: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills and Financial Secretary to the Treasury.
External appointments: Managing Director at HSBC and Governor for the National Institute of Economic and Social Research.

Resolution 14: To re-elect Maria Richter Non-executive Director

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

Resolution 15: To re-elect George Rose Non-executive Director

Appointment to the Board: October 2002, appointed to Lattice Group plc board in 2000
Committee membership: A (ch), N, R
Career experience: Formerly a member of the Financial Reporting Review Panel, Non-executive Director of Orange plc and Saab AB and Finance Director of BAE Systems plc.
External appointments: Member of the UK Industrial Development Advisory Board, Non-executive Director of Genel Energy plc and Laing O'Rourke plc.

Resolutions 16 – 17: Auditors' reappointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Resolution 16: To reappoint the auditors PricewaterhouseCoopers LLP

It is a requirement that the Company's auditors must be reappointed at each general meeting at which accounts are laid, which will normally be at each AGM. This resolution proposes the auditors' reappointment.

Resolution 17: To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

Resolution 18: To approve the Directors' Remuneration Report

In accordance with requirements under the Directors' Remuneration Report Regulations, an advisory resolution is to be proposed on the Directors' Remuneration Report. This means that, should shareholders vote against the Report, the Directors will still be paid but the Remuneration Committee will reconsider remuneration policy going forward.

Resolution 19: To authorise the Directors to allot ordinary shares

The purpose of resolution 19 is to renew the Directors' power to allot shares. The authority in paragraph (i) will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £135,577,714, which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 16 May 2012. The authority in paragraph (ii) will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, only in connection with a fully pre-emptive rights issue up to a further nominal value of £135,577,714, which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 16 May 2012. This is in line with investor guidelines. It is envisaged that, if the additional authority under paragraph (ii) of resolution 19 is utilised, all the Directors would continue to put themselves forward for re-election at the next AGM.

The Directors consider it desirable to have the maximum flexibility permitted by investor guidelines to respond to market developments. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting. Each authority will be subject to renewal annually.

As at 16 May 2012, the number of ordinary shares in issue was 3,700,949,542 and the Company held 131,658,687 treasury shares, representing 3.69% of the issued share capital excluding treasury shares.

Under the authorities in resolution 19, the Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to convert any security into shares, except in relation to, or in connection with, the Company's scrip dividend scheme and the exercise of options under the Company's share schemes.

If the resolution is passed, the authority will expire on the earlier of 30 October 2013 and the end of the next AGM.

Resolutions 20, 21, 22 and 23 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolution 20: To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights). This resolution seeks shareholders' approval to allot a limited number of ordinary shares or other equity securities, or sell treasury shares, for cash without offering them to existing shareholders in proportion to their existing shareholdings first.

The Directors intend to adhere to the provisions of the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company over a rolling three year period, without prior consultation with shareholders. Accordingly, the resolution seeks approval for the allotment of new issues of up to 178,464,542 new ordinary shares for cash, representing 5% of the issued share capital (excluding treasury shares) as at 16 May 2012. This limit also applies to shares issued from treasury. A renewal of this authority will be proposed at each subsequent AGM.

Resolution 21: To authorise the Company to purchase its own ordinary shares

In some circumstances, companies may find it advantageous to purchase their own shares in the market. Repurchased shares may be held as treasury shares by the Company, and resold for cash, cancelled, either immediately or at some point in the future, or used for the purposes of employee share schemes. The Directors believe that it is desirable for the Company to have such additional flexibility in the management of its capital base. The Company did not purchase any shares during the year ended 31 March 2012. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum. The Company will only purchase shares where the Directors believe this would be in the best interests of shareholders generally. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company.

As at 16 May 2012, options were outstanding over 29,207,345 ordinary shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 22: To authorise the Directors to hold general meetings on 14 clear days' notice

The Articles of Association (the 'Articles') allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 days' notice. Following changes arising from the implementation of the Shareholder Rights Directive in the UK, authority to call such meetings on such notice (rather than on 21 days' notice) requires annual shareholder approval. Accordingly, to retain flexibility, the Directors are seeking authority again this year to continue to be able to call general meetings on not less than 14 clear days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on such notice.

Resolution 23: To authorise the Company to amend their existing Articles

The Company proposes to update its Articles to take account of the implementation of the Shareholder Rights Directive in the UK and the last parts of the 2006 Act, and also to provide the Company with the maximum flexibility possible. The proposed amendments to the Articles are available for inspection, as described in note 15 on page 9. The principal changes are summarised below:

(i) Chairman's casting vote

It is proposed to remove the provision giving the Chairman a casting vote in the event of equality of votes as this is no longer permitted under the 2006 Act.

(ii) Voting by proxies on a show of hands

The Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations') have amended the 2006 Act so that it now provides that each proxy appointed by a shareholder has one vote on a show of hands unless the proxy is appointed by more than one shareholder, in which case the proxy has one vote for and one vote against if (a) the proxy has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, or if (b) the proxy has been instructed by one or more shareholders to vote for or against a resolution and by one or more shareholders to use his/her discretion as to how to vote on the resolution. The relevant provisions have been amended to reflect these changes.

(iii) Voting record dates

Under the 2006 Act as amended by the Shareholders' Rights Regulations, the Company must determine the rights of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting. The Company, in calculating this time period, may choose not to take account of days which are not working days. The relevant provisions have been amended to reflect this requirement.

(iv) Directors' powers to delegate to committees

It is proposed to amend the relevant provision to allow the Directors more flexibility to delegate powers to committees, with fewer restrictions on the composition of such committees and their abilities to pass resolutions.

(v) General

Other changes are of a minor, technical or clarifying nature to reflect changes made by the 2006 Act or the Shareholders' Rights Regulations, and to take the opportunity to clarify the wording in the Articles. We are pleased that the Company has retained the Plain English Campaign's crystal mark for the amended Articles.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 28 July 2012 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 28 July 2012 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 16 May 2012 (being the last business day before publication of this Notice of AGM), there were 3,700,949,542 ordinary shares in issue, each carrying one vote each, and 131,658,687 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 16 May 2012 is 3,569,290,855.

3. Holders of ordinary shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will have been sent a personalised Proxy Card.

6. To be valid, Proxy Cards or CREST Proxy Instructions must be received by no later than 2pm on Saturday 28 July 2012, using the enclosed pre-paid envelope or delivered by post or (during normal business hours) by hand to: Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 2pm on Saturday 28 July 2012. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles of Association, copies of which are available on the Company's website at http://www.nationalgrid.com/corporate/About+Us/CorporateGovernance/.

8. If this notice is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by close of business on Friday 27 July 2012. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information; the answer has already been given on the Company's website in the form of an answer to a question; or answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

14. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 18 June 2012, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

15. Copies of the Directors' service contracts or letters of appointment and the Company's existing Articles and the proposed amended Articles will be available for inspection at the registered office of the Company at 1-3 Strand, London WC2N 5EH during normal business hours until the time of the AGM and at The ICC, Broad Street, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

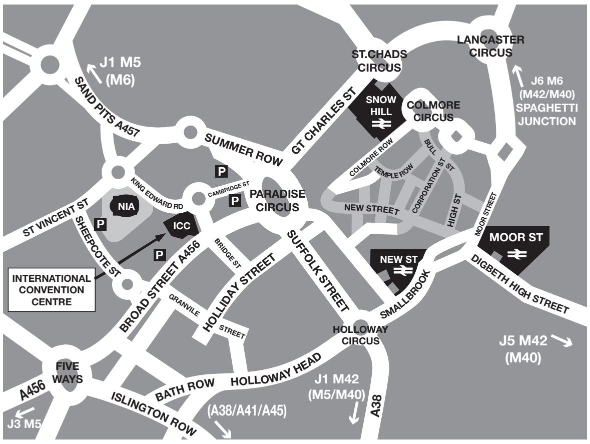
16. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

Shareholder information

The AGM
The AGM will take place at 2pm on Monday 30 July 2012 at The ICC, Broad Street, Birmingham B1 2EA (see map below). Registration for the AGM will open at 12 noon.

Venue
A shuttle bus will run at regular intervals between Birmingham New Street railway station and the venue from 11.30am, returning after the AGM to Birmingham New Street railway station.

Limited free car parking will be available at the venue (North Car Park) from 11.30am onwards for the duration of the meeting on a ‘first come, first served’ basis.



If you can attend the meeting
Please bring your Admission Card (attached to the Proxy Card enclosed with this Notice if received in hard copy) or a copy of the email notification if we communicate with you electronically, as this will help with registration.

A light lunch and refreshments will be served in the main hall before the meeting. Tea and coffee will also be available in the main hall for a short time after the meeting. Please note that food and drink are not permitted in the auditorium.

For your personal safety and security there may be checks and bag searches of those attending the meeting. Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the centre of the main hall.

Capita Registrars will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company’s activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, attendees consent to being filmed.

If you cannot attend
The AGM can be viewed by webcast online at www.nationalgrid.com. More information on how to view the webcast is available on the website.

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods:

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:

  Capita Registrars
  PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU
- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on page 8 for details.

To be valid, Proxy Cards must be received by 2pm on Saturday 28 July 2012 and CREST Proxy Instructions by the close of business on Friday 27 July 2012.

Please note that proxy votes can only be submitted via paper Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting
Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company’s website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company’s Articles of Association, copies of which are available on the Company’s website at www.nationalgrid.com/corporate/About+Us/CorporateGovernance/

Have you received unsolicited investment advice?
Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the FSA before getting involved.

You can check at www.fsa.gov.uk/register/home.do and can report calls from unauthorised firms to the FSA by calling **0845 606 1234**.

Notes

Manage your shareholding wherever, whenever, on the **National Grid Share Portal**

The National Grid Share Portal is a secure online site where you can:

- **Register** your AGM proxy votes
- **Sign up** for electronic communications
- **View** your holdings and get an indicative value
- **View** your dividend payment history
- **Get** copies of your dividend tax vouchers
- **Choose** to receive dividends in shares, via our scrip dividend scheme
- **Choose** to receive your dividend direct to your bank account
- **Update** your address details
- **Buy and sell** shares

It only takes a few minutes to register, just visit **www.nationalgridshareholders.com** and have your 11 digit Investor Code (IVC) to hand.

Electronic communications — **help save paper**

To receive an email notifying you as soon as there is new shareholder information for you to view online, sign up for electronic communication via the National Grid Share Portal: www.nationalgridshareholders.com and follow the on-screen instructions on the 'Ecommunications' link.

Want more information or help?

Please use the contact details set out below to find out more information about your dividend options, for terms and conditions of any of the services offered or for help with any other queries.

If you have queries about the AGM or if you have not received a Proxy Card and believe that you should, please contact:

Capita Registrars

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham Kent BR3 4TU

Your dividend options

Have your dividends paid directly into your bank account	– Your dividend reaches your account on the payment date – It is more secure – cheques sometimes get lost in the post – No more trips to the bank
Receive your dividends as additional shares	– Join our scrip dividend scheme – No stamp duty or commission to pay
Local currency dividend payments	If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

For more information about your dividend options or for terms and conditions of any of the services offered please call the shareholder helpline on 0871 402 3344, visit the National Grid Share Portal, www.nationalgridshareholders.com or if you are attending the AGM, please speak to a representative from Capita Registrars.

Notice of 2013 Annual General Meeting

National Grid plc

The 2013 Annual General Meeting of National Grid plc (the 'Company') will be held at 2pm on Monday 29 July 2013 at The ICC, Broad Street, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

15 May 2013

National Grid plc, Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Resolutions

The Annual General Meeting ('AGM') will consider the following resolutions, which in the case of resolutions 19, 20 and 21 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2013, the Directors' Reports and the Auditors' Report on the accounts.

2. To declare a final dividend of 26.36 pence per ordinary share (US$2.0088 per American Depositary Share) for the year ended 31 March 2013.

3. To re-elect Sir Peter Gershon as a Director.

4. To re-elect Steve Holliday as a Director.

5. To re-elect Andrew Bonfield as a Director.

6. To re-elect Tom King as a Director.

7. To re-elect Nick Winser as a Director.

8. To re-elect Philip Aiken as a Director.

9. To re-elect Nora Mead Brownell as a Director.

10. To elect Jonathan Dawson as a Director.

11. To re-elect Paul Golby as a Director.

12. To re-elect Ruth Kelly as a Director.

13. To re-elect Maria Richter as a Director.

14. To elect Mark Williamson as a Director.

15. To reappoint PricewaterhouseCoopers LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.

16. To authorise the Directors to set the auditors' remuneration.

17. To approve the Directors' Remuneration Report for the year ended 31 March 2013.

18. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the Companies Act 2006 (the '2006 Act'), to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company:

(i) up to an aggregate nominal amount of £139,305,599; and

(ii) comprising equity securities (as defined in Section 560(1) of the 2006 Act) up to a further nominal amount of £139,305,599 in connection with an offer by way of a rights issue.

This authority shall expire at the earlier of the close of the next AGM and 29 October 2014 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.

19. Subject to the passing of resolution 18 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(i) any such allotment in connection with a rights issue; and

(ii) any such allotment, otherwise than pursuant to a rights issue, of equity securities up to an aggregate nominal value of £20,895,839.

This authority shall expire at the earlier of the close of the next AGM and 29 October 2014 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly after such expiry and the Directors may allot equity securities in accordance with such offer or agreement as if the authority conferred had not expired.

20. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its ordinary shares provided that:

(i) the maximum number of ordinary shares that may be acquired is 366,743,311 being 10% of the Company's issued share capital (excluding treasury shares) as at 15 May 2013;

(ii) the minimum price per share that may be paid for any such shares is $11\frac{17}{43}$ pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average market value for an ordinary share, as derived from the London Stock Exchange Official List, for the five business days prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

This authority shall expire at the earlier of the close of the next AGM and 29 October 2014 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would or might be executed wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred had not expired.

21. To authorise the Directors, in accordance with the Company's existing Articles of Association, to call a general meeting of the Company, other than an AGM, on not less than 14 clear days' notice.

The Directors believe the proposals set out in resolutions 1 to 21 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Alison Kay,
Group General Counsel & Company Secretary

15 May 2013

National Grid plc
Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 19, 20 and 21 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1: To receive the Annual Report and Accounts

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report and Accounts for the year ended 31 March 2013 (the 'Annual Report') and the Performance Summary will be available at the AGM. These documents are also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Registrars, see page 12 for contact details.

Resolution 2: To declare a final dividend

The Company requires shareholder consent to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 26.36 pence per ordinary share (US$2.0088 per American Depositary Share ('ADS')) will be paid on 21 August 2013 to shareholders on the register at the close of business on 7 June 2013. The dividend is to be paid in respect of each ordinary share other than those shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new ordinary shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both ordinary shares and ADSs are paid the declared dividend on the same day.

Resolutions 3 – 14: Election and re-election of Directors

The Company's Articles of Association require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Mark Williamson on 3 September 2012 and Jonathan Dawson on 4 March 2013, they will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code, it is proposed that all other Directors seek re-election at the AGM this year, with the exception of Ken Harvey and George Rose, who will be stepping down from the Board following the conclusion of the 2013 AGM.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined, other than the Chairman, each of the Non-executive Directors at year end to be independent notwithstanding that Ken Harvey, Maria Richter and George Rose have served on the Board for more than nine years.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combine to provide an exceptional balance of skills and knowledge which is of great benefit to the Company and, therefore, the Board recommends the re-election of all Directors, with the exception of Ken Harvey and George Rose.

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

Resolution 3: To re-elect Sir Peter Gershon CBE FREng Chairman

Appointment to the Board: August 2011 as Deputy Chairman, Chairman with effect from January 2012
Committee membership: N (ch)
Previous appointments: Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and member of the UK Defence Academy Advisory Board.
External appointments: Chairman of Tate & Lyle plc and member of the HM Government Efficiency and Reform Board and The Sutton Trust Board.

Resolution 4: To re-elect Steve Holliday FREng Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc 2001, Chief Executive with effect from January 2007
Committee membership: F
Previous appointments: Executive Director of British Borneo Oil and Gas; he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Most recently Chairman of the UK Business Council for Sustainable Energy and the Technician Council.
External appointments: Non-executive Director of Marks and Spencer Group plc, Chairman of Crisis UK, the Prince's National Ambassador, Trustee Director for Business in the Community and member of Infrastructure UK Advisory Council.

Resolution 5: To re-elect Andrew Bonfield Finance Director

Appointment to the Board: November 2010
Committee membership: F
Previous appointments: Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.
External appointments: Non-executive Director of Kingfisher plc.

Resolution 6: To re-elect Tom King Executive Director, US

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

Resolution 7: To re-elect Nick Winser FREng Executive Director, UK

Appointment to the Board: April 2003
Previous appointments: Chief Operating Officer of the US transmission business for National Grid Transco plc having joined The National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, with Powergen since 1991 as principal negotiator on commercial matters. Most recently co-Chair of the Energy Research Partnership.
External appointments: Non-executive Director of Kier Group plc and Chair of CIGRE UK.

Resolution 8: To re-elect Philip Aiken Non-executive Director

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

Resolution 9: To re-elect Nora Mead Brownell Non-executive Director

Appointment to the Board: 1 June 2012
Committee membership: N, R, S
Previous appointments: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners.
External appointments: Board member of Comverge, Inc., Spectra Energy Partners LP and ONCOR Electric Delivery Holding Company LLC and partner in ESPY Energy Solutions, LLC.

Resolution 10: To elect Jonathan Dawson Non-executive Director

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

Resolution 11: To re-elect Paul Golby CBE FREng Non-executive Director

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

Resolution 12: To re-elect Ruth Kelly Non-executive Director

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

Resolution 13: To re-elect Maria Richter Non-executive Director

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

Resolution 14: To elect Mark Williamson Non-executive Director

Appointment to the Board: 3 September 2012
Committee membership: A, F, N
Previous appointments: Chief Accountant then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller in 2000 and appointed as Chief Financial Officer in 2003.
External appointments: Non-executive and Senior Independent Director of Alent plc, Deputy Chairman and Senior Independent Director of Imperial Tobacco Group PLC.

Resolutions 15 – 16: Auditors' reappointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Resolution 15: To reappoint the auditors PricewaterhouseCoopers LLP

It is a requirement that the Company's auditors must be reappointed at each general meeting at which accounts are laid, which will normally be at each AGM. This resolution proposes the auditors' reappointment.

Resolution 16: To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

Resolution 17: To approve the Directors' Remuneration Report

In accordance with requirements under the Directors' Remuneration Report Regulations, an advisory resolution is to be proposed on the Directors' Remuneration Report. This means that, should shareholders vote against the Report, the Directors will still be paid but the Remuneration Committee will reconsider remuneration policy going forward.

Resolution 18: To authorise the Directors to allot ordinary shares

The purpose of resolution 18 is to renew the Directors' power to allot shares. The authority in paragraph (i) will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £139,305,599, which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 15 May 2013. The authority in paragraph (ii) will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, only in connection with a fully pre-emptive rights issue up to a further nominal value of £139,305,599, which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 15 May 2013. This is in line with investor guidelines. It is envisaged that, if the additional authority under paragraph (ii) of resolution 18 is utilised, all the Directors would continue to put themselves forward for re-election at the next AGM.

The Directors consider it desirable to have the maximum flexibility permitted by investor guidelines to respond to market developments. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting. Each authority will be subject to renewal annually.

As at 15 May 2013, the number of ordinary shares in issue was 3,794,575,998 and the Company held 127,142,880 treasury shares, representing 3.47% of the issued share capital excluding treasury shares.

Under the authorities in resolution 18, the Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to convert any security into shares, except in relation to, or in connection with, the Company's scrip dividend scheme and the exercise of options under the Company's share schemes.

If the resolution is passed, the authority will expire on the earlier of 29 October 2014 and the end of the next AGM.

Resolutions 19, 20 and 21 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolution 19: To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights). This resolution seeks shareholders' approval to allot a limited number of ordinary shares or other equity securities, or sell treasury shares, for cash without offering them to existing shareholders in proportion to their existing shareholdings first.

The Directors intend to adhere to the provisions of the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company over a rolling three year period, without prior consultation with shareholders. Accordingly, the resolution seeks approval for the allotment of new issues of up to 183,371,655 new ordinary shares for cash, representing 5% of the issued share capital (excluding treasury shares) as at 15 May 2013. This limit also applies to shares issued from treasury. A renewal of this authority will be proposed at each subsequent AGM.

Resolution 20: To authorise the Company to purchase its own ordinary shares

In some circumstances, companies may find it advantageous to purchase their own shares in the market. Repurchased shares may be held as treasury shares by the Company, and resold for cash, cancelled, either immediately or at some point in the future, or used for the purposes of employee share schemes. The Directors believe that it is desirable for the Company to have such additional flexibility in the management of its capital base. The Company did not purchase any shares during the year ended 31 March 2013. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum. The Company will only purchase shares where the Directors believe this would be in the best interests of shareholders generally. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company.

As at 15 May 2013, options were outstanding over 28,060,709 ordinary shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 21: To authorise the Directors to hold general meetings on 14 clear days' notice

The Articles of Association (the 'Articles') allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 days' notice. Following changes arising from the implementation of the Shareholder Rights Directive in the UK, authority to call such meetings on such notice (rather than on 21 days' notice) requires annual shareholder approval. Accordingly, to retain flexibility, the Directors are seeking authority again this year to continue to be able to call general meetings on not less than 14 clear days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on such notice.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 27 July 2013 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 27 July 2013 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 15 May 2013 (being the last business day before publication of this Notice of AGM), there were 3,794,575,998 ordinary shares in issue, each carrying one vote each, and 127,142,880 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 15 May 2013 is 3,667,433,118.

3. Holders of ordinary shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will have been sent a personalised Proxy Card.

6. To be valid, Proxy Cards must be received by no later than 2pm on Saturday 27 July 2013, using the enclosed pre-paid envelope or delivered by post or (during normal business hours) by hand to: Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 2pm on Saturday 27 July 2013. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles of Association, copies of which are available on the Company's website at www.nationalgrid.com/corporate/About+Us/CorporateGovernance.

8. If this notice is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by close of business on Friday 26 July 2013. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information; the answer has already been given on the Company's website in the form of an answer to a question; or answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

14. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 17 June 2013, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

15. Copies of the Directors' service contracts or letters of appointment and the Company's Articles will be available for inspection at the registered office of the Company at 1-3 Strand, London WC2N 5EH during normal business hours until the time of the AGM and at The ICC, Broad Street, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

16. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

Shareholder information

The AGM

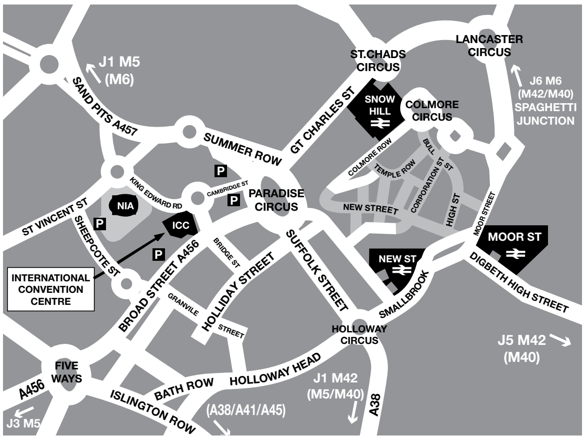
The AGM will take place at 2pm on Monday 29 July 2013 at The ICC, Broad Street, Birmingham B1 2EA (see map below). Registration for the AGM will open at 12 noon.

Venue

This year there will be no shuttle bus service.

For location and travel details to the ICC please visit www.theicc.co.uk/locationtravel.

Limited free car parking will be available at the venue (North Car Park) from 11.30am onwards for the duration of the meeting on a 'first come, first served' basis.



If you can attend the meeting

Please bring your Admission Card (attached to the Proxy Card enclosed with this Notice if received in hard copy) or a copy of the email notification if we communicate with you electronically, as this will help with registration.

A light lunch and refreshments will be served in the main hall before the meeting. Tea and coffee will also be available in the main hall for a short time after the meeting. Please note that food and drink are not permitted in the auditorium.

For your personal safety and security there may be checks and bag searches of those attending the meeting. Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the centre of the main hall.

Capita Registrars will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company's activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, attendees consent to being filmed.

If you cannot attend

The AGM can be viewed by webcast online at www.nationalgrid.com. More information on how to view the webcast is available on the website.

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods:

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:

  Capita Registrars
  PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU
- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on page 8 for details.

To be valid, Proxy Cards must be received by 2pm on Saturday 27 July 2013 and CREST Proxy Instructions by close of business on Friday 26 July 2013.

Please note that proxy votes can only be submitted via paper Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting

Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles of Association, copies of which are available on the Company's website at www.nationalgrid.com/corporate/About+Us/CorporateGovernance.

Have you received unsolicited investment advice?

Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post, by email or visits at home. If you receive any such unsolicited contact please check the company or person contacting you is properly authorised by the 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**.

Want more information or help?

Capita Registrars, contact details overleaf, can help with shareholding queries and can provide you with a copy of the Annual Report and Accounts.

Alternatively, the Annual Report and Accounts, Performance Summary and this Notice of Meeting are available at www.nationalgrid.com in the Investors section.

For your notes

Manage your shareholding wherever, whenever, on the **National Grid Share Portal**

The National Grid Share Portal is a secure online site where you can:

- **Register** your AGM proxy votes
- **Sign up** for electronic communications
- **View** your holdings and get an indicative value
- **View** your dividend payment history
- **Get** copies of your dividend tax vouchers
- **Choose** to receive dividends in shares, via our scrip dividend scheme
- **Choose** to receive your dividend direct to your bank account
- **Update** your address details
- **Buy and sell** shares

It only takes a few minutes to register, just visit **www.nationalgridshareholders.com** and have your 11 digit Investor Code (IVC) to hand.

Electronic communications — **help save paper**

To receive an email notifying you as soon as there is new shareholder information for you to view online, sign up for electronic communications via the National Grid Share Portal: www.nationalgridshareholders.com and follow the on-screen instructions on the 'manage your account' link to change your communication preferences.

Want more information or help?

To find out more information about your dividend options, for terms and conditions of any of the services offered, if you have queries about the AGM or if you have not received a Proxy Card and believe that you should or for help with any other queries, please contact Capita Registrars.

Capita Registrars

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham Kent BR3 4TU

Your dividend options

Have your dividends paid directly into your bank account

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

Receive your dividends as additional shares

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

Local currency dividend payments

- If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

For more information about your dividend options or for terms and conditions of any of the services offered please call the shareholder helpline on 0871 402 3344, visit the National Grid Share Portal, www.nationalgridshareholders.com or if you are attending the AGM, please speak to a representative from Capita Registrars.

nationalgrid

Notice of 2014 Annual General Meeting

The 2014 Annual General Meeting of National Grid plc (the 'Company') will be held at 11.30am on Monday 28 July 2014 at The ICC, Broad Street, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these to the person who now holds the shares.

National Grid plc, Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Resolutions

The Annual General Meeting ('AGM') will consider the following resolutions, which in the case of resolutions 23, 24 and 25 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2014, the Directors' Reports and the Auditors' Report on the accounts.

2. To declare a final dividend of 27.54 pence per ordinary share (US$2.3107 per American Depositary Share) for the year ended 31 March 2014.

3. To re-elect Sir Peter Gershon as a Director.

4. To re-elect Steve Holliday as a Director.

5. To re-elect Andrew Bonfield as a Director.

6. To re-elect Tom King as a Director.

7. To elect John Pettigrew as a Director.

8. To re-elect Philip Aiken as a Director.

9. To re-elect Nora Mead Brownell as a Director.

10. To re-elect Jonathan Dawson as a Director.

11. To elect Therese Esperdy as a Director.

12. To re-elect Paul Golby as a Director.

13. To re-elect Ruth Kelly as a Director.

14. To re-elect Mark Williamson as a Director.

15. To reappoint PricewaterhouseCoopers LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.

16. To authorise the Directors to set the auditors' remuneration.

17. To approve the Directors' remuneration policy set out on pages 59 to 66 in the Annual Report and Accounts for the year ended 31 March 2014 (the 'Annual Report').

18. To approve the Directors' Remuneration Report, excluding the Directors' remuneration policy referred to in resolution 17, contained in the Annual Report.

19. To approve the amendments to the rules of the National Grid plc Long Term Performance Plan (the 'Plan') produced in draft to this meeting and for the purposes of identification initialled by the Chairman and to authorise the Directors to adopt the changes to the Plan and do all acts and things necessary to implement the changes.

20. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the Companies Act 2006 (the '2006 Act'), to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £141,863,549.

This authority shall expire at the earlier of the close of the next AGM and 28 October 2015 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.

21. To authorise the Directors, in accordance with the Articles of Association, to offer the holders of ordinary shares of the Company, to the extent and in the manner determined by the Directors, the right to elect to receive new ordinary shares (credited as fully paid) instead of cash, in respect of all or part of any dividend which may be declared or paid in the period prior to the conclusion of the AGM to be held in 2019.

22. Subject to the passing of resolution 21, to authorise the Directors, in accordance with the Articles of Association, to capitalise the appropriate nominal amounts of new shares of the Company allotted pursuant to the Company's scrip dividend scheme out of the sums standing to the credit of any reserve or account of the Company.

23. Subject to the passing of resolution 20 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(i) any such allotment or sale in connection with a pre-emptive offer; and

(ii) any such allotment or sale, otherwise than pursuant to a pre-emptive offer, of equity securities up to an aggregate nominal value of £21,279,532.

This authority shall expire at the earlier of the close of the next AGM and 28 October 2015 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly after such expiry and the Directors may allot equity securities in accordance with such offer or agreement as if the authority conferred had not expired.

24. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its ordinary shares provided that:

(i) the maximum number of ordinary shares that may be acquired is 373,477,508 being 10% of the Company's issued share capital (excluding treasury shares) as at 18 May 2014;

(ii) the minimum price per share that may be paid for any such shares is $11\frac{17}{43}$ pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average market value for an ordinary share, as derived from the London Stock Exchange Official List, for the five business days prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

This authority shall expire at the earlier of the close of the next AGM and 28 October 2015 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would, or might, be executed wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred had not expired.

25. To authorise the Directors, in accordance with the Company's Articles of Association, to call a general meeting of the Company, other than an AGM, on not less than 14 clear days' notice.

The Directors believe the proposals set out in resolutions 1 to 25 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Alison Kay
Group General Counsel & Company Secretary
18 May 2014
National Grid plc

Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 23, 24 and 25 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1:
To receive the Annual Report

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report and the Shareholder Information leaflet (previously named the Performance Summary) will be available at the AGM. These documents are also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Asset Services, see the back page for contact details.

Resolution 2:
To declare a final dividend

The Company requires shareholder consent to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 27.54 pence per ordinary share (US$2.3107 per American Depositary Share ('ADS')) will be paid on 20 August 2014 to shareholders on the register at the close of business on 6 June 2014. The dividend is to be paid in respect of each ordinary share other than those shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new ordinary shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both ordinary shares and ADSs are paid the declared dividend on the same day. Please also refer to the notes for resolutions 21 and 22 in relation to the Company's scrip dividend scheme.

Resolutions 3 – 14:
Election and re-election of Directors

The Company's Articles of Association require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Therese Esperdy and John Pettigrew on 18 March 2014 and 1 April 2014 respectively, they will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code, it is proposed that all other Directors seek re-election at the AGM this year, with the exception of Maria Richter and Nick Winser, who will be stepping down from the Board following the conclusion of the 2014 AGM.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined, other than the Chairman, each of the Non-executive Directors at year end to be independent notwithstanding that Maria Richter has served on the Board for more than nine years.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combine to provide an exceptional balance of skills and knowledge which is of great benefit to the Company and, therefore, the Board recommends the re-election of all Directors, with the exception of Maria Richter and Nick Winser.

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

Resolution 3:
To re-elect Sir Peter Gershon CBE FREng, Chairman

Appointment to the Board: August 2011 as Deputy Chairman, Chairman with effect from January 2012

Committee membership: N (ch)

Previous appointments: Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and member of the UK Defence Academy Advisory Board.

External appointments: Chairman of Tate & Lyle plc and the Aircraft Carrier Alliance and member of the HM Government Efficiency and Reform Board and The Sutton Trust Board.

Resolution 4:
To re-elect Steve Holliday FREng, Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc 2001, Chief Executive with effect from January 2007

Committee membership: F

Previous appointments: Executive Director of British Borneo Oil and Gas, he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Most recently Chairman of the UK Business Council for Sustainable Energy and the Technician Council.

External appointments: Non-executive Director of Marks and Spencer Group plc, Chairman of Crisis UK, the Prince's National Ambassador, Vice Chair for Business in the Community and Chair of the Energy and Efficiency Industrial Partnership.

Resolution 5:
To re-elect Andrew Bonfield, Finance Director

Appointment to the Board: November 2010

Committee membership: F, S

Previous appointments: Chief Financial Officer at Cadbury plc until March 2010, he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.

External appointments: Non-executive Director of Kingfisher plc.

Resolution 6:
To re-elect Tom King, Executive Director, US

Appointment to the Board: August 2007

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

Resolution 7:
To elect John Pettigrew, Executive Director, UK

Appointment to the Board: 1 April 2014

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

Resolution 8:
To re-elect Philip Aiken AM, Non-executive Director

Appointment to the Board: May 2008

Committee membership: A, N, S (ch)

Previous appointments: Group President of BHP Billiton's Energy business, Executive Director of BTR plc, held senior roles in BOC Group plc, senior advisor to Macquarie Capital (Europe) Limited, Chairman of Robert Walters plc, Non-executive and Senior Independent Director of Kazakhmys PLC and Non-executive Director of Miclyn Express Offshore Limited.

External appointments: Chairman of AVEVA Group plc, Non-executive and Senior Independent Director of Essar Energy plc and Non-executive Director of Essar Oil Limited and Newcrest Mining Limited.

Resolution 9:
To re-elect Nora Mead Brownell, Non-executive Director

Appointment to the Board: June 2012

Committee membership: N, R, S

Previous appointments: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners. Board member of ONCOR Electric Delivery Holding Company LLC.

External appointments: Board member of Comverge, Inc., Spectra Energy Partners LP and partner in ESPY Energy Solutions, LLC.

Resolution 10:
To re-elect Jonathan Dawson, Non-executive Director

Appointment to the Board: March 2013

Committee membership: F, N, R (ch)

Previous appointments: Various roles within the Ministry of Defence before joining Lazard where he spent over 20 years. Non-executive Director of Galliford Try plc 2004 to 2008, National Australia Group Europe Limited 2005 to 2012 and Standard Life Investments (Holdings) Limited 2010 to 2013.

External appointments: Non-executive and Senior Independent Director of Next plc, Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman of Penfida Limited.

Resolution 11:
To elect Therese Esperdy, Non-executive Director

Appointment to the Board: 18 March 2014

Committee membership: F, N

Previous appointments: Joined Chase Securities in 1997, having started her banking career with Lehman Brothers. Various senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and Global Head of Debt Capital Markets at JPMorgan.

External appointments: Co head of Banking, Asia Pacific for JPMorgan Chase & Co.

Resolution 12:
To re-elect Paul Golby CBE FREng, Non-executive Director

Appointment to the Board: February 2012

Committee membership: N, R, S

Previous appointments: Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director, Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON Board in December 2011 and most recently Non-executive Chairman of AEA Technology Group plc.

External appointments: Chairman of EngineeringUK, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology.

Explanation of resolutions continued

Resolution 13:
To re-elect Ruth Kelly, Non-executive Director

Appointment to the Board: October 2011

Committee membership: A, F, N

Previous appointments: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills, and Financial Secretary to the Treasury.

External appointments: Senior Executive at HSBC and Governor for the National Institute of Economic and Social Research.

Resolution 14:
To re-elect Mark Williamson, Non-executive Director

Appointment to the Board: September 2012

Committee membership: A (ch), N, R

Previous appointments: Chief Accountant then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller in 2000 and appointed as Chief Financial Officer in 2003.

External appointments: Non-executive Director, Chairman of the Audit Committee and Senior Independent Director of Alent plc, and Chairman of Imperial Tobacco Group PLC.

Resolutions 15 and 16:
Auditors' reappointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Resolution 15: To reappoint the auditors PricewaterhouseCoopers LLP

It is a requirement that the Company's auditors must be reappointed at each general meeting at which accounts are laid, which will normally be at each AGM. This resolution proposes the auditors' reappointment.

Resolution 16: To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

Resolutions 17 and 18:
Directors' remuneration

These resolutions deal with the remuneration of the Directors and seek approval of the Directors' remuneration policy and of the remuneration paid to the Directors during the year under review respectively.

Changes to the 2006 Act, which took effect in October 2013, require the Company to ask shareholders to approve the remuneration policy section of the Directors' Remuneration Report. This is set out on pages 59 to 66 of the Annual Report. New resolution 17 is a binding vote. If approved by shareholders, the Directors' remuneration policy will take effect immediately after the conclusion of the AGM and will apply until replaced by a new or amended policy.

Resolution 18 is to be proposed as an advisory resolution on the remainder of the Directors' Remuneration Report. This means that, should shareholders vote against the Report, the Directors will still be paid but the Remuneration Committee will reconsider remuneration policy going forward. The Report (excluding the Directors' remuneration policy) is set out on pages 58 and 67 to 73 of the Annual Report.

Resolution 19:
Amendment of the Long Term Performance Plan

This resolution seeks approval for the following changes to the National Grid plc Long Term Performance Plan to reflect the Directors' remuneration policy set out in the Directors' Remuneration Report (see resolution 17 above):

- To increase the individual limit for the market value of shares subject to awards which can be granted to Executive Directors in a financial year from 250% to 300% of annual basic salary and to 350% of annual basic salary in the case of the Chief Executive Officer.
- To extend the circumstances in which malus or clawback can be applied to include the occurrence of a significant environmental or health and safety issue, a failure of risk management and the emergence of facts after termination of employment which, had they been known at the time, would have resulted in the participant not being treated as a good leaver.
- To require any share transfer by a participant after vesting to be in accordance with the Company's shareholding requirements from time to time. The remuneration policy states that the initial requirement is for the Chief Executive Officer to build up and then hold shares in the Company equal to 500% of salary and for other Executive Directors to build up and then hold shares in the Company equal to 400% of salary.

The rules of the National Grid plc Long Term Performance Plan showing the proposed amendments are available for inspection (see note 15 on page 09 of this Notice of AGM).

Resolution 20:
To authorise the Directors to allot ordinary shares

The purpose of resolution 20 is to renew the Directors' power to allot shares. The authority will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £141,863,549, which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 18 May 2014.

This year the Directors are seeking a lower level of authority than in recent years, where an equivalent of two-thirds of the issued share capital of the Company, exclusive of treasury shares, was sought. The Directors consider that the Company will have sufficient flexibility with the lower level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to 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.

The Company intends to actively manage the share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market under the authority provided by this resolution. The Company believes these circumstances are unlikely to arise. However if required, it is expected that the allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per annum. For further details in relation to the management of the scrip dividend scheme, see page 02 of the Annual Report.

This authority will be subject to renewal annually. If the resolution is passed, the authority will expire on the earlier of 28 October 2015 and the close of the next AGM.

As at 18 May 2014, the number of ordinary shares in issue was 3,854,339,684 and the Company held 119,564,599 treasury shares, representing 3.2% of the issued share capital excluding treasury shares.

Resolutions 21 and 22:
Scrip dividend

The Directors are proposing that the Company renew the authority (originally granted at the 2009 AGM in respect of any dividend declared or paid in the period prior to the conclusion of the AGM to be held in 2014) to operate an optional scrip dividend scheme to commence with the proposed 2013/14 final dividend payable in August 2014. The scrip dividend scheme is subject to shareholder approval. Such a scheme will give shareholders the right to elect to receive new ordinary shares in the capital of the Company (credited as fully paid) instead of future cash dividends.

The terms and conditions of the National Grid scrip dividend scheme will be amended with effect from the conclusion of the AGM. The revised terms and conditions are set out at Annex 1 and will be available in the Investors area of our website, www.nationalgrid.com. The proposed changes are largely administrative in nature and are not material to the way in which the scheme currently operates.

Shareholders who elect to take new shares in the Company under the scheme will increase their holdings without incurring stamp duty or dealing costs. For the avoidance of doubt, existing scrip mandates executed by shareholders previously will remain effective and will apply to future dividends for which a scrip alternative is offered unless the mandate is cancelled by the shareholder by contacting Capita Asset Services in accordance with the scrip dividend scheme terms and conditions.

The number of shares that shareholders will be entitled to receive under the scheme will be determined by their holdings and the reference share price. The reference share price will be calculated based on the average closing middle market quotations for the Company's shares as derived from the London Stock Exchange Daily Official List for five dealing days commencing on the ex-dividend date for each dividend. Details of how the scrip dividend scheme will operate in respect of the proposed 2013/14 final dividend and future dividends together with the terms and conditions of the scheme can be found at Annex 1.

In accordance with the Articles of Association of the Company, approval is sought to capitalise sums standing to the credit of the reserves of the Company, including the share premium account. This would enable the Directors to apply such sums in paying up in full the nominal amounts of new shares allotted to shareholders pursuant to elections under the scrip dividend scheme.

Resolutions 23, 24 and 25 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolution 23:
To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share plan), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights). This resolution seeks shareholders' approval to allot a limited number of ordinary shares or other equity securities, or sell treasury shares, for cash without offering them to existing shareholders in proportion to their existing shareholdings first.

The Directors intend to adhere to the provisions of the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a pre-emptive offer) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company over a rolling three year period, without prior consultation with shareholders. Accordingly, the resolution seeks approval for the allotment of new issues of up to 186,738,754 new ordinary shares for cash, representing 5% of the issued share capital (excluding treasury shares) as at 18 May 2014. This limit also applies to shares issued from treasury. A renewal of this authority will be proposed at each subsequent AGM.

Resolution 24:
To authorise the Company to purchase its own ordinary shares

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base.

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

Further to the explanatory note to resolution 20, share issuance arising from the operation of the scrip dividend scheme may be actively managed through the repurchase of the Company's shares. It is expected that such repurchases will not exceed 1% of the issued share capital (excluding treasury shares) per annum. For further details in relation to the management of the scrip dividend scheme, see page 02 of the Annual Report.

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

The Company did not purchase any shares during the year ended 31 March 2014. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum.

As at 18 May 2014, options were outstanding over 25,843,727 ordinary shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 25:
To authorise the Directors to hold general meetings on 14 clear days' notice

The Articles of Association allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 days' notice. Under Section 307A of the 2006 Act, annual shareholder approval is required to call such meetings on such notice (rather than on 21 days' notice). Accordingly, to retain flexibility, the Directors are seeking authority again this year to continue to be able to call general meetings on not less than 14 clear days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on such notice.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 26 July 2014 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 26 July 2014 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 18 May 2014 (being the latest practicable date before publication of this Notice of AGM), there were 3,854,339,684 ordinary shares in issue, each carrying one vote each, and 119,564,599 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 18 May 2014 is 3,734,775,085.

3. Holders of ordinary shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will, as applicable, have been sent a personalised Proxy Card or alternatively will be able to complete a proxy form online at www.nationalgridshareholders.com.

6. To be valid, Proxy Cards must be received by no later than 11.30am on Saturday 26 July 2014, using the pre-paid envelope provided or delivered by post or (during normal business hours) by hand to: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 11.30am on Saturday 26 July 2014. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles of Association, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

8. If this notice is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 4.30pm on Friday 25 July 2014. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless (a) answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website in the form of an answer to a question, or (c) answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

14. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 13 June 2014, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

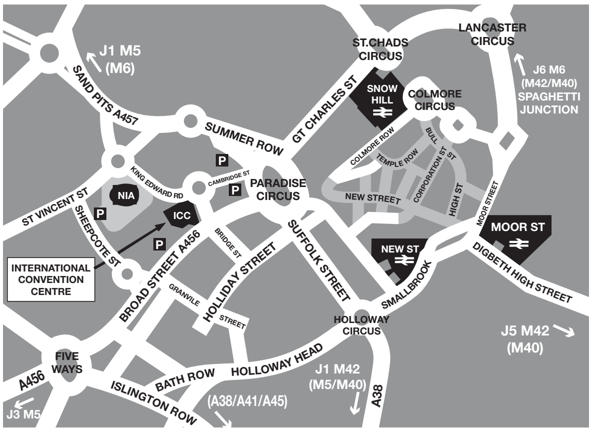
15. Copies of the Directors' service contracts or letters of appointment, the rules of the National Grid plc Long Term Performance Plan showing the proposed amendments and the Company's Articles of Association will be available for inspection at the registered office of the Company at 1-3 Strand, London WC2N 5EH during normal business hours until the time of the AGM and at The ICC, Broad Street, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

16. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

Shareholder information

The AGM
The AGM will take place at 11.30am on Monday 28 July 2014 at The ICC, Broad Street, Birmingham B1 2EA (see map below). Registration for the AGM will open at 10am.

Venue
For location and travel details to The ICC, please visit www.theicc.co.uk/locationtravel. For walking route details, please visit www.walkit.com. Limited free car parking will be available at the venue (North Car Park) on a 'first come, first served' basis. Car parking for shareholders with special needs is also available.



If you can attend the meeting
Please bring your Admission Card if received in hard copy or a copy of the email notification if we communicate with you electronically, as this will help with registration.

Tea and coffee will be available before the meeting and a light lunch will be provided after the meeting in the main hall. Please note that food and drink are not permitted in the auditorium.

You will be asked to pass through our security systems before entering the meeting. For your personal safety and security there may be checks and searches conducted. Please do not bring suitcases, large bags or rucksacks. If you do we may ask you to leave the item in the cloakroom.

Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the main hall.

Capita Asset Services will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company's activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, you consent to being filmed.

Shareholders with special needs
The ICC is easily accessible by wheelchair users and has lift access inside. An induction loop is available for shareholders with hearing difficulties.

If you cannot attend
You can follow the meeting by watching our webcast online at www.nationalgrid.com.

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods (as applicable):

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:

  Capita Asset Services
  PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU
- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on page 09 for details.

To be valid, Proxy Cards must be received by 11.30am on Saturday 26 July 2014 and CREST Proxy Instructions by 4.30pm on Friday 25 July 2014.

Please note that proxy votes can only be submitted via paper. Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting
Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. Shareholders and proxies will be asked to vote in the meeting using a hand held voting system. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles of Association, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

Have you received unsolicited investment advice?
Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post, by email or visits at home. If you receive any such unsolicited contact, 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**.

Want more information or help?
Capita Asset Services can help with shareholding queries and can provide you with a copy of the Annual Report, contact details overleaf. Alternatively, the Annual Report, Shareholder Information leaflet and this Notice of Meeting are available at www.nationalgrid.com in the Investors section.

Annex 1
Scrip Dividend Scheme – Terms and Conditions

If you are in any doubt about the action you should take with this document, you should immediately consult an appropriate independent advisor duly authorised under the UK Financial Services and Markets Act 2000.

1. The Scrip Dividend Scheme
The optional Scrip Dividend Scheme enables shareholders to receive new fully paid ordinary shares in National Grid plc instead of cash dividends. This makes it possible for shareholders to increase their shareholdings in National Grid without incurring dealing costs or stamp duty. Please see paragraph 16 below for taxation information.

The operation of the Scheme is subject always to the Directors' decision to make an offer of new fully paid ordinary shares in respect of any particular dividend. Should the Directors decide not to offer new shares in respect of any particular dividend, cash will automatically be paid instead.

2. Joining the Scheme
All UK shareholders holding their shares in certificated form can if they so wish join the Scheme by completing and submitting a Scrip Dividend Mandate Form. This can be done online by visiting the National Grid share portal, www.nationalgridshareholders.com, and changing their dividend options or by completing a paper Mandate Form (which may be amended from time to time) and sending it to the Company's Registrar, Capita Asset Services. No acknowledgment of receipt of online instructions or paper Mandate Forms will be issued. For details regarding overseas shareholders please see paragraph 11 below. Further copies of the paper Mandate Form may be obtained online at www.nationalgrid.com or from the Company's Registrar. All elections will be subject to fulfilment of the conditions specified on the share portal or in the paper Mandate Form. The right to elect to receive new shares is non-transferable.

The date by which scrip elections must be made is referred to as the 'Scrip Election Date'. The applicable Scrip Election Date in relation to each dividend will be announced by the Company and made available on its website at www.nationalgrid.com. Completed Mandate Forms must be received by the Company's Registrar before 5pm on the Scrip Election Date to apply to the dividend to be paid in order to be eligible to receive shares instead of cash for that dividend and subsequent dividends. Mandate Forms received after that time will apply to subsequent dividends only and the upcoming dividend will be paid in cash. A Mandate Form, once submitted online or completed and returned to the Company's Registrar, will remain in force for all future dividends, where a scrip dividend alternative is offered, until such Mandate Form is cancelled by the shareholder via the share portal or in writing to the Company's Registrar.

Shareholders who hold their shares in CREST can only elect to receive dividends in the form of new ordinary shares by use of the CREST Dividend Election Input Message. By doing so, such CREST shareholders confirm their election to participate in the Scheme and their acceptance of these terms and conditions, as amended from time to time. Other forms of election, including paper forms of election, will not be accepted in respect of shares held through CREST. The Dividend Election Input Message must contain the number of shares on which the election is being made. If the number of elected shares is blank or zero then it will be rejected. If the number of elected shares is greater than the shares held at the relevant record date then the election will be applied to the holding as at the relevant record date. Once an election is made using the CREST Dividend Election Input Message system it cannot be amended. Therefore, if a CREST shareholder wished to change their election, such shareholder would need to cancel their previous election and submit a new election. CREST shareholders must elect for each dividend to receive new shares in respect of such dividend.

CREST elections must be made through CREST, before 5pm on the Scrip Election Date.

3. Number of new shares
The number of new shares that shareholders will receive for each dividend will depend on the amount of the cash dividend, any residual cash balance brought forward from the last scrip dividend, the number of shares held, and the reference share price to be used in calculating shareholders' entitlements.

The reference share price will be the average of the middle market quotations for the Company's ordinary shares on the London Stock Exchange Daily Official List for the five dealing days commencing on (and including) the date on which the ordinary shares are first quoted ex-dividend.

The formula used for calculating the maximum number of shares to be received for each dividend will be as follows:

$$\frac{\text{(number of ordinary shares held at the dividend record date x cash dividend per share) + any residual cash balance}}{\text{reference share price}}$$

For example:

i) If a shareholder held 1,000 shares and the dividend was 21.3 pence per share and the average share price for the five dealing days after the ex-dividend date was 710 pence then such shareholder would receive 30 additional shares under the Scrip Dividend Scheme.

ii) If a shareholder held 500 shares and the dividend was 23 pence per share and the average share price for the five dealing days after the ex-dividend date was 610 pence then such shareholder would receive 18 additional shares under the Scrip Dividend Scheme.

The record date, ex-dividend date and reference share price in respect of any future scrip dividends will be announced and made available on the Company's website at www.nationalgrid.com.

Once shareholders' new shares have been issued, a statement will be sent to such shareholders, along with a new share certificate, showing the number of new ordinary shares allotted, the reference share price, and the total cash equivalent of the new ordinary shares for tax purposes. If on any occasion the cash dividend entitlement, together with any cash balance brought forward, is insufficient to acquire at least one new share, shareholders will receive a statement explaining that no shares have been issued and showing how much cash has been carried forward to the next dividend.

CREST shareholders will have their accounts credited directly with new shares on the dividend payment date or as soon as practicable thereafter and will receive a statement as above.

4. Fractions and cash balances
No fraction of a new share will be allotted and calculation of entitlement to new shares will always be rounded down to the nearest whole new share. Any residual cash balance (except in the case of CREST shareholders where such sums will be paid out on the dividend payment date) will be carried forward to be included in the calculation for the next dividend. No interest will be paid on this cash balance.

5. Future dividends
Once a shareholder has completed and returned a valid Mandate Form, this will apply for all successive dividends unless and until it is revoked via the share portal or in writing by the shareholder to the Company's Registrar. Shareholders holding their shares in CREST must elect for each dividend. The mandate is always subject to the Directors' decision to offer a scrip dividend.
The Directors may decide not to offer a scrip alternative in respect of any future dividend. Please see paragraphs 13 and 14 below for further details.

All new ordinary shares issued under the Scheme will automatically increase shareholders' shareholdings on which the next entitlement to a scrip dividend will be calculated (unless an election has been made on part of a shareholding only in respect of nominee shareholdings). Where any dividend payable to a shareholder is insufficient to purchase at least one new share via the Scheme, funds representing shareholders' fractional entitlements will be accumulated for their benefit. These funds will be added to the cash amount of the next dividend (in respect of which a scrip dividend alternative is offered) and applied in calculating shareholders' entitlement under that offer. In the case of CREST shareholders, fractional entitlements will be paid out on the dividend payment date.

Accumulated fractional entitlements will be paid to shareholders in cash as soon as reasonably practicable in the event of cancellation of mandates by such shareholders or disposals of such shareholders' entire shareholdings, or in the event of cancellation or termination of the Scheme. In the event of death, insolvency or mental incapacity of a shareholder, any cash balance for that shareholder will be paid to his/her estate or trustee as applicable. Where a shareholder cancels their mandate or sells their shares, amounts less than £3 standing to their benefit in such account will, unless instructed otherwise in writing in advance by the shareholder, be paid to a charity of the Company's choice.

6. Listing and ranking of the new shares
Application will be made to the London Stock Exchange and the UK Listing Authority ('UKLA') for admission of the new shares to trading and to the official list of the UKLA. The new shares will be credited as fully paid and will rank equally in all respects with the existing ordinary shares, including the same voting rights and dividend rights (other than, for the avoidance of doubt, the right to receive the relevant cash dividend in lieu of which the scrip shares have been issued). In the unlikely event that the new shares are not admitted to listing, or if any other condition is not fulfilled, the Company will pay the dividend in cash in the usual way as soon as reasonably practicable.

7. Share certificates and dealings
Subject to the new shares being admitted to the official list of the UKLA and to trading on the London Stock Exchange, new share certificates for participants in the Scrip Dividend Scheme will be posted to certificated shareholders at their own risk, on or about the same date as the dividend warrants are posted to those shareholders who are not participating in the Scheme (see the National Grid website for current dates). CREST shareholders will have their CREST accounts credited directly with the new shares on or as soon as is practicable after the same day that the cash dividend is paid. Dealings in the new ordinary shares are expected to begin on the dividend payment date.

8. Multiple holdings
If for any reason a shareholder's shares are registered in more than one holding, then unless such multiple shareholdings are consolidated before the Scrip Election Date, they will be treated as separate. As a result, separate mandates will need to be completed for each such holding if shareholders wish to receive new shares under the Scheme in respect of each holding.

9. Shareholdings in joint names
In respect of shareholdings held in joint names, to be effective, elections made using the Scrip Dividend Mandate Form must be signed by all joint shareholders.

10. Partial elections
Mandates will only be accepted in relation to the whole shareholding. The Directors may, at their discretion, allow a shareholder to elect in respect of a lesser number of shares where they are acting on behalf of more than one beneficial holder, that is, through a nominee shareholding held in CREST. The Dividend Election Input Message submitted to CREST must contain the number of shares for which the election is being made. Such elections must be renewed for each dividend. A cash dividend will be paid on any remaining shares not included in the Dividend Election Input Message.

11. Overseas shareholders
Shareholders who are resident outside the UK may treat this document as an invitation to receive new ordinary shares unless such an invitation could not lawfully be made to such shareholders without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person resident outside the UK wishing to elect to receive new ordinary shares under the Scheme to be satisfied that such an election can validly be made without any further obligation on the part of the Company, and to be satisfied as to full observance of the laws of the relevant territory, including obtaining any governmental, regulatory or other consents which may be required and observing any other formalities in such territories and any resale restrictions which may apply to the new shares. Unless this condition is satisfied, such shareholders may not participate in the Scheme or submit a Mandate Form.

12. Recent sale or purchase of ordinary shares
If shareholders have sold some of their ordinary shares before a record date, the scrip dividend will apply in respect of the remainder of such shareholders' shares. If shareholders have bought any additional ordinary shares after a record date, the additional shares will not be eligible for the next dividend, but will be eligible for future dividends, without the need to complete a further mandate in respect of the additional shares.

13. Cancellation of Mandates
Shareholders may cancel their Scrip Dividend Mandates at any time. Notice of cancellation must be effected online via the share portal or given in writing to the Company's Registrar by no later than 5pm on the Scrip Election Date. CREST shareholders can only cancel their elections through the CREST system. A notice of cancellation will take effect on its receipt and be processed by the Company's Registrar in respect of all dividends payable after the date of receipt of such notice. If a notice of cancellation is received after the Scrip Election Date, the shareholder will receive additional shares under the Scheme for the next dividend payable and the cancellation will take effect for subsequent dividends.

A shareholder's Scrip Dividend Mandate will be deemed to be cancelled if such shareholder sells or otherwise transfers their ordinary shares to another person but only with effect from the registration of the relevant transfer.

If you hold your shares in certificated form and you sell or transfer your entire shareholding before the last date for the receipt of scrip elections for a particular dividend, you will be withdrawn from the Scrip Dividend Scheme for that dividend. A shareholder's mandate will also terminate immediately on receipt of notice of such shareholder's death. However, if a joint shareholder dies, the mandate will continue in favour of the surviving joint shareholder(s) (unless and until cancelled by the surviving joint shareholder(s)). Any residual amounts of over £3 standing to the credit of a shareholder will be paid to such shareholder in cash on or as soon as practicable after the cancellation. Where such residual amount is under £3, such sums will, unless the shareholder instructs otherwise in writing in advance, be paid to a charity of the Company's choice.

14. Changes to or cancellation of the Scheme
At any time the Directors, at their discretion and without notice to shareholders individually, may modify, suspend, terminate or cancel the Scheme. In the case of any modification, existing mandates (unless otherwise specified by the Directors) will be deemed to remain valid under the modified arrangements unless and until the Company's Registrar receives a cancellation in writing or via the share portal from such shareholders pursuant to paragraph 13 above. If the Scheme is terminated or cancelled by the Directors, all mandates then in force will be deemed to have been cancelled as at the date of such termination or cancellation.

The operation of the Scheme is always subject to the Directors' decision to make an offer of new fully paid ordinary shares in respect of any particular dividend. The Directors also have the power, after such an offer is made, to revoke the offer generally at any time prior to the allotment of new ordinary shares under the Scheme. If the Directors revoke an offer (or otherwise suspend, terminate or cancel the Scheme), shareholders will receive their dividend in cash on or as soon as reasonably practicable after the dividend payment date.

15. Governing law and jurisdiction
The Scheme (including the Mandate Form and any related circular) is subject to the Company's Articles and these terms and conditions, as amended from time to time, and is governed by, and its terms and conditions are to be construed in accordance with, English law. By electing to receive new shares under the Scheme, you agree to submit to the exclusive jurisdiction of the English courts in relation to the Scheme.

16. Taxation
The tax consequences of electing to receive new ordinary shares in place of a cash dividend will depend on shareholders' individual circumstances. If shareholders are not sure how they will be affected from a tax perspective, they should consult their solicitor, accountant or other professional advisor before taking any action.

The Company understands that (as at 18 May 2014), under UK legislation and HM Revenue & Customs practice (which are subject to change, possibly with retrospective effect), the taxation consequences for shareholders electing to receive new ordinary shares instead of a cash dividend will, broadly, be as follows. This summary relates only to the position of shareholders resident only in the UK for taxation purposes who hold their shares beneficially as an investment, otherwise than under a personal equity plan or an individual savings account and who have not (and are not deemed to have) acquired their shares by reason of any office or employment.

The precise taxation consequences for a particular shareholder will depend on that shareholder's individual circumstances. Shareholders who may be subject to taxation in a jurisdiction other than the UK or who may be unsure as to their taxation position should seek their own professional advice. This summary of the taxation treatment is not exhaustive. However, if shareholders are in any doubt as to their tax position, they should consult their solicitor, accountant or other professional advisor before taking any action.

16.1 UK resident individual shareholders
Income Tax
Very broadly, a UK resident individual shareholder who receives new ordinary shares pursuant to the Scheme will have the same liability to income tax as he would have had had he received a cash dividend of an amount equal to the 'cash equivalent of the new ordinary shares'. The cash equivalent of the new ordinary shares will be the amount of the cash dividend which the shareholder would have received had they not elected to take new shares, unless the market value of the new shares on the first day of dealings on the London Stock Exchange differs substantially from the cash dividend foregone (i.e. differs by 15% or more of such market value) in which case the market value will be treated as the cash equivalent of the new ordinary shares for taxation purposes.

Where individual shareholders elect to receive new ordinary shares in place of a cash dividend, they will be treated as having received gross income of an amount which, when reduced by income tax at the rate of 10%, is equal to the cash equivalent of the new ordinary shares. Income tax at the rate of 10% is treated as having been paid on this gross income.

Generally, individuals who currently pay income tax at the basic rate, will have no further liability to income tax in respect of the new shares received. Individuals who are subject to income tax at the rate of 40% will be liable to pay income tax at the dividend upper rate of 32.5% on the gross income which they are treated as having received. The 10% income tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 22.5% of the amount of the gross income treated as having been received (which is equal to 25% of the cash equivalent of the new ordinary shares). Subject to what is said above in relation to the determination of the cash equivalent of the new ordinary shares, this treatment is similar to that for cash dividends. No tax repayment claim may be made on either a cash dividend or in respect of new shares taken by non taxpaying individuals.

Individuals who are subject to income tax at the additional rate of 45% and elect to receive new shares will be subject to income tax at the dividend additional rate of 37.5% on the amount of gross income treated as having been received. The 10% income tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 27.5% of the amount of gross income treated as having been received (which is approximately 30.6% of the cash equivalent of the new shares).

Capital Gains Tax
For capital gains tax purposes, if an election to receive new shares instead of a cash dividend is made, then the cash equivalent of the new ordinary shares (as described above) will be treated as being the base cost of the new shares.

16.2 UK resident trustees

Income Tax

Where trustees of discretionary trusts, who are liable to income tax on dividend income at the dividend trust rate (currently 37.5%), elect to receive new shares and treat such shares as income, they will be liable to income tax. For the purposes of charging this income tax, the trustees will be treated as having received gross income which, when reduced by income tax at the rate of 10%, is the same as the cash equivalent (as defined above) and as having paid income tax of 10% on the amount of this gross income. The 10% income tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 27.5% of the amount of the gross income treated as having been received (which is equal to 30.5% of the cash equivalent amount).

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as income, the trustees will be treated as having paid income tax of 10% on the gross income (as described above) that they have received and will have no further income tax liability. The tax position of a beneficiary entitled to the trust income who is a UK tax resident individual will be as set out in the section headed 'UK resident individual shareholders' above.

Where the trustees of either type of trust elect to receive new shares and treat such shares as capital, the trustees will not have any further income tax to pay. The beneficiary will not be entitled to the shares (and will have no income tax to pay).

If the new shares are held in a bare trust or in the name of a nominee, the trustee or nominee will be disregarded for the purposes of income tax and the tax position of the beneficiary entitled to the shares will be as set out in the section headed 'UK resident individual shareholders'.

Capital Gains Tax

Where trustees of discretionary trusts, where no beneficiary is entitled to the trust income, elect to receive new shares and treat such shares as capital, such shares will constitute a new holding of shares in the Company acquired for the cash equivalent in the manner described in the section headed 'UK resident individual shareholders' above.

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as income, a beneficiary entitled to the trust income who is a UK tax resident individual, is treated for capital gains tax purposes as having acquired the new shares for the cash equivalent, in the manner described in the section headed 'UK resident individual shareholders' above.

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as capital, the shares will be added to the trustees' existing holding of shares in the Company and treated as though they had been acquired when the existing holding was acquired. However, the trustees will not be considered to have made any payment for the new shares, so there will be no increase in base cost.

If the new shares are held in a bare trust or in the name of a nominee, the trustee or nominee will be disregarded for the purposes of capital gains tax and the tax position of the beneficiary entitled to the shares will be treated as having acquired the new shares for the cash equivalent, in the manner described in section 16.1 above.

16.3 UK resident companies

A corporate shareholder is not generally liable to corporation tax on cash dividends and will not be charged corporation tax on new shares received under the Scheme instead of a cash dividend. For the purposes of corporation tax on chargeable gains, no consideration will be treated as having been given for the new shares. These new shares will be added to the corporate shareholder's existing holding of shares in the Company and treated as having been acquired when the existing holding was acquired. On disposal of the new shares, the base cost of the new shares will be calculated by reference to the base cost of the existing holding.

16.4 UK pension funds

Where pension funds elect to receive new ordinary shares under the Scheme, no tax credit will attach to the new shares and no tax repayment claim can be made in respect of them, nor could such a claim be made in respect of the cash dividend.

16.5 Stamp duty/stamp duty reserve tax

No stamp duty or stamp duty reserve tax will be payable on the receipt of new shares under the Scheme provided they are not transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts.

Contacts

For general enquiries about the Scheme, please contact Capita Asset Services.

Glossary

Articles the Articles of Association of the Company

Capita Asset Services is a trading name of Capita Registrars Limited

CREST the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK & Ireland Limited is the operator

Directors the directors of National Grid plc

London Stock Exchange the London Stock Exchange plc

National Grid or **Company**, National Grid plc

new shares new ordinary shares issued under the Scheme

ordinary shares ordinary shares of $11^{17}/_{43}$ pence each in the capital of the Company

Scrip Dividend Mandate or **Mandate Form** a mandate (in a form provided by the Company) from a shareholder to the Directors to allot new shares under the terms of the Scheme in lieu of a cash dividend to which they may become entitled from time to time

Scrip Dividend Scheme or **Scheme** the National Grid plc Scrip Dividend Scheme as comprised under and subject to the terms and conditions contained in this document as amended from time to time

Scrip Election Date the latest date for receipt of Mandate Forms or CREST Dividend Election Input Messages to enable a scrip dividend election to apply for a particular dividend

shareholder a holder of ordinary shares in the capital of the Company

share portal the National Grid share portal, www.nationalgridshareholders.com

National Grid share portal
Manage your shareholding wherever and whenever

- Register your AGM votes
- Sign up for electronic communications to receive email communications and electronic tax vouchers instead of paper
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Have your dividends paid directly to your bank or building society account instead of receiving cheques
- Update your address details

It only takes a few minutes to register, just visit www.nationalgridshareholders.com and have your 11 digit investor code (IVC) to hand.

Your dividend options

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

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

Receive your dividends as additional shares

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

Local currency dividend payments

- If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

For more information about your dividend options or for terms and conditions of any of the services offered, please contact Capita Asset Services or, if you are attending the AGM, please speak to a representative from Capita Asset Services.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Notice of Meeting, Annual Report and Accounts, Shareholder Information leaflet (previously the Performance Summary) or a paper proxy card.

Alternatively all these documents (except the proxy card) are available at www.nationalgrid.com.

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

Online
Visit the National Grid share portal
www.nationalgridshareholders.com

Email
nationalgrid@capita.co.uk
or write to:
National Grid Share Register
Capita Asset Services,
The Registry,
34 Beckenham Road,
Beckenham,
Kent BR3 4TU

nationalgrid

Notice of 2015 Annual General Meeting

The 2015 Annual General Meeting of National Grid plc (the 'Company') will be held at 11.30am on Tuesday 21 July 2015 at The ICC, Broad Street, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these to the person who now holds the shares.

National Grid plc, Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Resolutions

The Annual General Meeting (AGM) will consider the following resolutions, which in the case of resolutions 18, 19 and 20 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2015, the Directors' Reports and the Auditors' Report on the accounts.

2. To declare a final dividend of 28.16 pence per ordinary share (US$2.1866 per American Depositary Share (ADS)) for the year ended 31 March 2015.

3. To re-elect Sir Peter Gershon as a Director.

4. To re-elect Steve Holliday as a Director.

5. To re-elect Andrew Bonfield as a Director.

6. To re-elect John Pettigrew as a Director.

7. To elect Dean Seavers as a Director.

8. To re-elect Nora Mead Brownell as a Director.

9. To re-elect Jonathan Dawson as a Director.

10. To re-elect Therese Esperdy as a Director.

11. To re-elect Paul Golby as a Director.

12. To re-elect Ruth Kelly as a Director.

13. To re-elect Mark Williamson as a Director.

14. To reappoint PricewaterhouseCoopers LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.

15. To authorise the Directors to set the auditors' remuneration.

16. To approve the Directors' Remuneration Report, excluding the Directors' remuneration policy set out on pages 62 to 68, contained in the Annual Report.

17. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the Companies Act 2006 (the '2006 Act'), to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £142,114,664.

This authority shall expire at the earlier of the close of the next AGM and 21 October 2016 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.

18. Subject to the passing of resolution 17 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(i) any such allotment or sale in connection with a pre-emptive offer; and

(ii) any such allotment or sale, otherwise than pursuant to a pre-emptive offer, of equity securities up to an aggregate nominal value of £21,317,199.

This authority shall expire at the earlier of the close of the next AGM and 21 October 2016 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly after such expiry and the Directors may allot equity securities in accordance with such offer or agreement as if the authority conferred had not expired.

19. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its ordinary shares provided that:

(i) the maximum number of ordinary shares that may be acquired is 374,138,605 being 10% of the Company's issued share capital (excluding treasury shares) as at 20 May 2015;

(ii) the minimum price per share that may be paid for any such shares is 11 17/43 pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average market value for an ordinary share, as derived from the London Stock Exchange Official List, for the five business days prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

This authority shall expire at the earlier of the close of the next AGM and 21 October 2016 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would, or might, be executed wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred had not expired.

20. To authorise the Directors, in accordance with the Company's Articles of Association (Articles), to call a general meeting of the Company, other than an AGM, on not less than 14 working days' notice.

The Directors believe the proposals set out in resolutions 1 to 20 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Alison Kay
Group General Counsel & Company Secretary
20 May 2015
National Grid plc

Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 18, 19 and 20 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1:
To receive the Annual Report

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report will be available at the AGM. This document is also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Asset Services, see the back page for contact details.

Resolution 2:
To declare a final dividend

The Company requires shareholder consent to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 28.16 pence per ordinary share (US$2.1866 per ADS) will be paid on 5 August 2015 to shareholders on the register at the close of business on 5 June 2015. The dividend is to be paid in respect of each ordinary share other than those shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new ordinary shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both ordinary shares and ADSs are paid the declared dividend on the same day.

Resolutions 3 – 13:
Election and re-election of Directors

The Company's Articles require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Dean Seavers on 1 April 2015, Dean will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code 2012, it is proposed that all other Directors seek re-election at the AGM this year.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined, other than the Chairman, each of the Non-executive Directors at year end to be independent.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combine to provide an exceptional balance of skills and knowledge which is of great benefit to the Company and, therefore, the Board recommends the re-election of all Directors.

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

Resolution 3:
To re-elect Sir Peter Gershon CBE FREng, Chairman

Appointment to the Board: 1 August 2011 as Deputy Chairman, Chairman with effect from 1 January 2012

Committee membership: N (ch)

Previous appointments: Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and member of the UK Defence Academy Advisory Board.

External appointments: Chairman of Tate & Lyle plc and the Aircraft Carrier Alliance and member of The Sutton Trust Board.

Resolution 4:
To re-elect Steve Holliday FREng, Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc on 30 March 2001, Chief Executive with effect from January 2007

Committee membership: F

Previous appointments: Executive Director of British Borneo Oil and Gas, he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Most recently Chairman of the UK Business Council for Sustainable Energy, the Prince's National Ambassador and Non-executive Director of Marks and Spencer Group plc.

External appointments: Chairman of Crisis UK and of the Energy and Efficiency Industrial Partnership, and Vice Chairman for Business in the Community and of The Careers and Enterprise Company.

Resolution 5:
To re-elect Andrew Bonfield, Finance Director

Appointment to the Board: 1 November 2010

Committee membership: F, S

Previous appointments: Chief Financial Officer at Cadbury plc until March 2010, he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.

External appointments: Non-executive Director of Kingfisher plc.

Resolution 6:
To re-elect John Pettigrew, Executive Director, UK

Appointment to the Board: 1 April 2014

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

Resolution 7:
To elect Dean Seavers, Executive Director, US

Appointment to the Board: 1 April 2015

Previous appointments: Various senior management positions at Tyco International Ltd. from 2000 to 2007 before joining General Electric Company/United Technologies Corporation in 2007. President and Chief Executive Officer of General Electric Security from 2007 to 2010 and then President, Global Services of United Technologies Fire & Security from 2010 to 2011. Additionally, a member of the Board of Directors of National Fire Protection Association from 2010 to 2014, lead network member at City Light Capital from 2011 to 2015 and President and Chief Executive at Red Hawk Fire & Security, LLC from 2012 to 2014.

External appointments: Board member of Red Hawk Fire & Security, LLC.

Resolution 8:
To re-elect Nora Mead Brownell, Non-executive Director

Appointment to the Board: 1 June 2012

Committee membership: N, R, S

Previous appointments: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners. Board member of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc.

External appointments: Board member of Spectra Energy Partners LP, Direct Energy Advisory Board and the Advisory Board of Morgan Stanley Infrastructure Partners and partner in ESPY Energy Solutions, LLC.

Resolution 9:
To re-elect Jonathan Dawson, Non-executive Director

Appointment to the Board: 4 March 2013

Committee membership: F, N, R (ch)

Previous appointments: Various roles within the Ministry of Defence before joining Lazard where he spent over 20 years. Non-executive Director of Galliford Try plc 2004 to 2008, National Australia Group Europe Limited 2005 to 2012 and Standard Life Investments (Holdings) Limited 2010 to 2013 and most recently Senior Independent Director and Remuneration Committee Chairman of Next plc.

External appointments: Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman of Penfida Limited.

Resolution 10:
To re-elect Therese Esperdy, Non-executive Director

Appointment to the Board: 18 March 2014, and to the Board of National Grid USA with effect from 1 May 2015.

Committee membership: A, F (ch), N

Previous appointments: Joined Chase Securities in 1997, having started her banking career with Lehman Brothers. Various senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and Global Head of Debt Capital Markets and most recently co head of Banking, Asia Pacific at JPMorgan.

External appointments: Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co.

Resolution 11:
To re-elect Paul Golby CBE FREng, Non-executive Director

Appointment to the Board: 1 February 2012

Committee membership: A, N, R, S (ch)

Previous appointments: Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director, Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON Board in December 2011 and most recently Non-executive Chairman of AEA Technology Group plc.

External appointments: Chairman of EngineeringUK and the UK National Air Traffic System, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology and of the Nurse Review Advisory Group.

Explanation of resolutions continued

Resolution 12:
To re-elect Ruth Kelly, Non-executive Director

Appointment to the Board: 1 October 2011

Committee membership: A, F, N

Previous appointments: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills, and Financial Secretary to the Treasury.

External appointments: Senior Executive at HSBC and Governor for the National Institute of Economic and Social Research.

Resolution 13:
To re-elect Mark Williamson, Non-executive Director

Appointment to the Board: 3 September 2012

Committee membership: A (ch), N, R

Previous appointments: Chief Accountant then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller in 2000 and appointed as Chief Financial Officer in 2003.

External appointments: Non-executive Director, Chairman of the Audit Committee and Senior Independent Director of Alent plc, and Chairman of Imperial Tobacco Group PLC.

Resolutions 14 and 15:
Auditors' reappointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Resolution 14: To reappoint the auditors PricewaterhouseCoopers LLP

It is a requirement that the Company's auditors must be reappointed at each general meeting at which accounts are laid, which will normally be at each AGM. This resolution proposes the auditors' reappointment.

Resolution 15: To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

Resolution 16:
Directors' Remuneration Report

This resolution deals with the remuneration of the Directors and seeks approval of the remuneration paid to the Directors during the year under review.

Changes to the 2006 Act, which took effect in October 2013, require the Company to ask shareholders to approve the remuneration policy section of the Directors' Remuneration Report at least every three years, or if changes have been made to the policy. The remuneration policy was approved by shareholders at the 2014 AGM, and as no changes are proposed to the policy this year, the remuneration policy is not being presented for approval again this year. However, the Company is required to propose the remainder of the Directors' Remuneration Report as an advisory resolution each year.

This means that, should shareholders vote against the Directors' Remuneration Report, the Directors will still be paid but the Remuneration Committee will reconsider the remuneration policy going forward. The Report (excluding the Directors' remuneration policy) is set out on pages 60 and 61 and 69 to 75 of the Annual Report.

Resolution 17:
To authorise the Directors to allot ordinary shares

The purpose of resolution 17 is to renew the Directors' power to allot shares. The authority will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £142,114,664 (representing approximately 1,247,128,684 ordinary shares of $11\frac{17}{43}$ pence each), which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 20 May 2015.

The Directors are again seeking a lower level of authority than in recent years, where an equivalent of two-thirds of the issued share capital of the Company, exclusive of treasury shares, was sought. The Directors consider that the Company will have sufficient flexibility with the lower level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to 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.

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. The Company believes these circumstances are unlikely to arise. However, if required for this purpose, 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 annum. For further details in relation to the management of the scrip dividend scheme, see page 02 of the Annual Report.

This authority will be subject to renewal annually. If the resolution is passed, the authority will expire at the earlier of the close of the next AGM and 21 October 2016.

As at 20 May 2015, the number of ordinary shares in issue was 3,891,691,900 and the Company held 150,305,846 treasury shares, representing 4.02% of the issued share capital excluding treasury shares.

Resolutions 18, 19 and 20 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolution 18:
To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share plan), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights). This resolution seeks shareholders' approval to allot a limited number of ordinary shares or other equity securities, or sell treasury shares, for cash without offering them to existing shareholders in proportion to their existing shareholdings first.

The Directors intend to adhere to the provisions of the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a pre-emptive offer) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company over a rolling three year period, without prior consultation with shareholders. Accordingly, the resolution seeks approval for the allotment of new issues of up to 187,069,302 new ordinary shares for cash, representing 5% of the issued share capital (excluding treasury shares) as at 20 May 2015. This limit also applies to shares issued from treasury. A renewal of this authority will be proposed at each subsequent AGM.

Resolution 19:
To authorise the Company to purchase its own ordinary shares

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base.

The Company will seek to purchase shares where the Directors believe this would be in the best interests of shareholders generally, for example, to manage share dilution created by take-up of the scrip dividend option that is above the level required to maintain appropriate balance sheet strength. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

Further to the explanatory note to resolution 17, share issuance arising from the operation of the scrip dividend scheme may be actively managed through the repurchase of the Company's shares. It is expected that such issuance under the scrip dividend scheme, or such associated repurchases, will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum. It is intended that, in line with recent practice, repurchased shares will be held as treasury shares. For further details in relation to the management of the scrip dividend scheme, see page 02 of the Annual Report.

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

During the year ended 31 March 2015 the Company purchased 37,350,216 ordinary shares in the capital of the Company, representing approximately 1% of the called up share capital of the Company as at 31 March 2015 (excluding treasury shares) at a total cost of £338,170,931. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum.

As at 20 May 2015, options were outstanding over 27,282,719 ordinary shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 20:
To authorise the Directors to hold general meetings on 14 working days' notice

The updated UK Corporate Governance Code, issued in September 2014 (the 'New Code'), requires companies to call general meetings, other than AGMs, on a minimum of 14 working days' notice. Statutory provisions and the Articles allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 clear days' notice. The Directors believe it is appropriate, and in the interest of shareholders, to comply with the New Code's provision on notice periods by increasing the notice period beyond the statutory minimum in such circumstances to 14 working days. Under Section 307A of the 2006 Act, annual shareholder approval is required to call such meetings on such notice (rather than on 21 days' notice). Accordingly, to retain flexibility, the Directors are seeking authority this year to be able to call general meetings on not less than 14 working days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on such notice.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 18 July 2015 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 18 July 2015 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 20 May 2015 (being the latest practicable date before publication of this Notice of AGM), there were 3,891,691,900 ordinary shares in issue, each carrying one vote each, and 150,305,846 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 20 May 2015 is 3,741,386,054.

3. Holders of ordinary shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will, as applicable, have been sent a personalised Proxy Card or alternatively will be able to complete a proxy form online at www.nationalgridshareholders.com.

6. To be valid, Proxy Cards must be received by no later than 11.30am on Saturday 18 July 2015, using the pre-paid envelope provided or delivered by post or (during normal business hours) by hand to: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 11.30am on Saturday 18 July 2015. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

8. If this notice is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 8pm on Friday 17 July 2015. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless (a) answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website in the form of an answer to a question, or (c) answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

14. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 8 June 2015, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

15. Copies of the Directors' service contracts or letters of appointment and the Company's Articles will be available for inspection at the registered office of the Company at 1-3 Strand, London WC2N 5EH during normal business hours until the time of the AGM and at The ICC, Broad Street, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

16. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

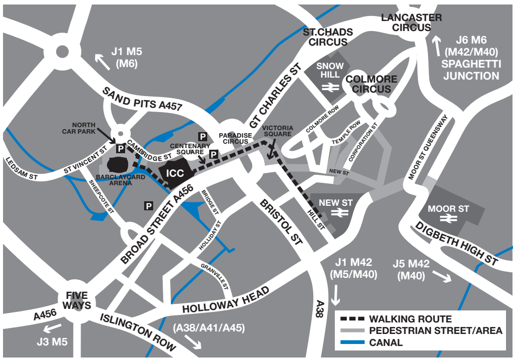
Shareholder information

The AGM

The AGM will take place at 11.30am on Tuesday 21 July 2015 at The ICC, Broad Street, Birmingham B1 2EA (see map below). Registration for the AGM will open at 10am.

Venue

For location and travel details to The ICC, please visit www.theicc.co.uk/find-us. For walking route details, please visit www.walkit.com. Limited free car parking will be available at the venue (Barclaycard Arena North Car Park) on a 'first come, first served' basis. Car parking for shareholders with special access requirements is also available.



If you can attend the meeting

Please bring your admission card if received in hard copy or a copy of the email notification if we communicate with you electronically, as this will help with registration.

Tea and coffee will be available before the meeting and a light lunch will be provided after the meeting in the main hall. Please note that food and drink are not permitted in the auditorium.

You will be asked to pass through our security systems before entering the meeting. For your personal safety and security there may be checks and searches conducted. Please do not bring suitcases, large bags or rucksacks. If you do we may ask you to leave the item in the cloakroom.

Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the main hall.

Capita Asset Services will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company's activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, you consent to being filmed.

Accessibility

The ICC is easily accessible by wheelchair users and has lift access inside. An induction loop is available for shareholders with hearing difficulties.

If you cannot attend

You can follow the meeting by watching our webcast online at www.nationalgrid.com.

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods (as applicable):

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:
  Capita Asset Services
  PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU
- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on pages 08 and 09 for details.

To be valid, Proxy Cards must be received by 11.30am on Saturday 18 July 2015 and CREST Proxy Instructions by 8pm on Friday 17 July 2015.

Please note that proxy votes can only be submitted via paper Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting

Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

Have you received unsolicited investment advice?

Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post, by email or visits at home. If you receive any such unsolicited contact, 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.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Annual Report, contact details overleaf. Alternatively, the Annual Report and this Notice of Meeting are available at www.nationalgrid.com in the Investors section.

Glossary

Annual Report the Company's Annual Report and Accounts for the year ended 31 March 2015

Articles the Articles of Association of the Company

Capita Asset Services is a trading name of Capita Registrars Limited

New Code the UK Corporate Governance Code issued in September 2014

CREST the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK & Ireland Limited is the operator

Directors the directors of National Grid plc

London Stock Exchange the London Stock Exchange plc

National Grid or **Company** National Grid plc

ordinary shares ordinary shares of $11\frac{17}{43}$ pence each in the capital of the Company

Scrip Dividend Scheme the National Grid plc Scrip Dividend Scheme subject to the terms and conditions approved by shareholders at the AGM held on 28 July 2014, as amended from time to time

shareholder a holder of ordinary shares in the capital of the Company

share portal the National Grid share portal, www.nationalgridshareholders.com

National Grid share portal
Manage your shareholding wherever and whenever

- Register your AGM vote
- Sign up for electronic communications to receive email communications and electronic tax vouchers instead of paper
- Have your dividends paid directly to your bank or building society account instead of receiving cheques
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Update your address details

It only takes a few minutes to register, just visit www.nationalgridshareholders.com and have your 11 digit investor code (IVC) to hand.

Your dividend options

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

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

Receive your dividends as additional shares

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

Local currency dividend payments

- If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

For more information about your dividend options or for terms and conditions of any of the services offered, please contact Capita Asset Services or, if you are attending the AGM, please speak to a representative from Capita Asset Services.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Notice of Meeting, Annual Report and Accounts or a paper Proxy Card.

Alternatively all these documents (except the Proxy Card) are available at www.nationalgrid.com.

Capita Asset Services
0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. 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
Calls outside the UK will be charged at the applicable international rate.

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

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

nationalgrid

Notice of 2016 Annual General Meeting

The 2016 Annual General Meeting of National Grid plc (the 'Company') will be held at 11.30am on Monday 25 July 2016 at The ICC, Broad Street, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these to the person who now holds the shares.

National Grid plc, Registered Office: 1–3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Resolutions

The Annual General Meeting (AGM) will consider the following resolutions, which in the case of resolutions 19, 20 and 21 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2016, the Directors' Reports and the Auditors' Report on the accounts.
2. To declare a final dividend of 28.34 pence per ordinary share (US$2.0445 per American Depositary Share (ADS)) for the year ended 31 March 2016.
3. To re-elect Sir Peter Gershon as a Director.
4. To re-elect John Pettigrew as a Director.
5. To re-elect Andrew Bonfield as a Director.
6. To re-elect Dean Seavers as a Director.
7. To elect Nicola Shaw as a Director.
8. To re-elect Nora Mead Brownell as a Director.
9. To re-elect Jonathan Dawson as a Director.
10. To re-elect Therese Esperdy as a Director.
11. To re-elect Paul Golby as a Director.
12. To re-elect Ruth Kelly as a Director.
13. To re-elect Mark Williamson as a Director.
14. To reappoint PricewaterhouseCoopers LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.
15. To authorise the Directors to set the auditors' remuneration.
16. To approve the Directors' Remuneration Report (excluding the excerpts from the Directors' remuneration policy set out within the Directors' Remuneration Report) set out on pages 68 to 70 and 75 to 81 of the Annual Report.
17. To authorise the Company and those companies which are subsidiaries of the Company at any time during the period for which this resolution has effect for the purposes of Part 14 of the Companies Act 2006 (the '2006 Act'):

    (i) to make political donations to political parties, and/or independent election candidates not exceeding £125,000 in aggregate;

    (ii) to make political donations to political organisations other than political parties, not exceeding £125,000 in aggregate; and

    (iii) to incur political expenditure, not exceeding £125,000 in aggregate,

    provided that the aggregate amount of any such donations and expenditure shall not exceed £125,000 during the period commencing on the date of passing of this resolution and at the earlier of the close of the next AGM and 25 October 2017.

    Words and expressions defined for the purpose of the 2006 Act shall have the same meaning in this resolution.
18. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the 2006 Act, to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £142,321,321.

    This authority shall expire at the earlier of the close of the next AGM and 25 October 2017 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.
19. Subject to the passing of resolution 18 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be limited to:

    (i) any such allotment or sale in connection with a pre-emptive offer; and

    (ii) any such allotment or sale, otherwise than pursuant to a pre-emptive offer, of equity securities up to an aggregate nominal value of £42,696,396.

    This authority shall expire at the earlier of the close of the next AGM and 25 October 2017 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly after such expiry and the Directors may allot equity securities in accordance with such offer or agreement as if the authority conferred had not expired.

20. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its ordinary shares provided that:

(i) the maximum number of ordinary shares that may be acquired is 374,682,662 being 10% of the Company's issued share capital (excluding treasury shares) as at 18 May 2016;

(ii) the minimum price per share that may be paid for any such shares is $11\frac{17}{43}$ pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average market value for an ordinary share, as derived from the London Stock Exchange Official List, for the five business days prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

This authority shall expire at the earlier of the close of the next AGM and 25 October 2017 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would, or might, be executed wholly or partly after such expiry and to purchase shares in accordance with such contract as if the authority conferred had not expired.

21. To authorise the Directors to call a general meeting of the Company, other than an AGM, on not less than 14 working days' notice.

The Directors believe the proposals set out in resolutions 1 to 21 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Alison Kay
Group General Counsel & Company Secretary
18 May 2016
National Grid plc

Registered Office: 1–3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 19, 20 and 21 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1:
To receive the Annual Report

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report will be available at the AGM. This document is also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Asset Services, see the back page for contact details.

Resolution 2:
To declare a final dividend

The Company requires shareholder consent to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 28.34 pence per ordinary share (US$2.0445 per ADS) will be paid on 10 August 2016 to shareholders on the register at the close of business on 3 June 2016. The dividend is to be paid in respect of each ordinary share other than those shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new ordinary shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both ordinary shares and ADSs are paid the declared dividend on the same day.

Resolutions 3–13:
Election and re-election of Directors

The Company's Articles require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Nicola Shaw on 1 July 2016, Nicola will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code 2014 (the 'Code'), it is proposed that all other Directors seek re-election at the AGM this year.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined that, other than the Chairman, each of the Non-executive Directors at year end continues to be independent.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combine to provide an appropriate balance of skills and knowledge which is of great benefit to the Company and, therefore, the Board recommends the re-election of all Directors.

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

Resolution 3:
To re-elect Sir Peter Gershon CBE FREng, Chairman

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012

Committee membership: N (ch)

Career: Sir Peter is a Fellow of the Royal Academy of Engineering and has held a number of senior positions across multiple industries. His previous appointments include Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. Sir Peter is currently Chairman of Tate & Lyle plc and a Non-executive Chairman of the Aircraft Carrier Alliance Management Board and most recently a Trustee of The Sutton Trust Board.

Resolution 4:
To re-elect John Pettigrew FEI, FIET, Chief Executive

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016

Committee membership: F

Career: A Fellow of the Energy Institute and of the Institution of Energy and Technology, John joined the Company in 1991 and has over 25 years of experience at National Grid in a variety of senior management roles. John's previous appointments include Director of Engineering from 2003; Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business between 2007 and 2010; Chief Operating Officer for UK Gas Distribution between 2010 and 2012; and UK Chief Operating Officer from 2012 to 2014. John was appointed to the role of Chief Executive on 1 April 2016.

Resolution 5:
To re-elect Andrew Bonfield, Finance Director

Appointed: 1 November 2010

Committee membership: F, S

Career: Andrew is a chartered accountant with significant financial experience having previously been Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company. As well as this, Andrew also has previous experience in the energy sector as Finance Director of BG Group plc and is currently a Non-executive Director of Kingfisher plc.

Resolution 6:
To re-elect Dean Seavers, Executive Director, US

Appointed: 1 April 2015

Career: Dean began his career at the Ford Motor Company, and held various senior management positions at Tyco International Ltd. before joining General Electric Company/United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association from 2010 to 2014 and most recently a lead network member at City Light Capital from 2011 to 2015 and President and Chief Executive at Red Hawk Fire & Security, LLC from 2012 to 2014. Dean is currently a Board member of Red Hawk Fire & Security, LLC.

Resolution 7:
To elect Nicola Shaw CBE, Executive Director, UK

Appointed: 1 July 2016

Career: Previously Nicola was CEO at HS1 plc from 2011 to 2016 and at FirstGroup plc between 2005 and 2010. At FirstGroup she led the European bus division and was an Executive Director of the Board. She was also an Independent Non-executive Director of Aer Lingus Group plc until September 2015 when the business was sold to IAG. Nicola's career, both in the UK and overseas, has included roles at the Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport. She is currently a Director of Ellevio AB, a Swedish electricity distribution company.

Resolution 8:
To re-elect Nora Mead Brownell, Non-executive Director

Appointed: 1 June 2012

Committee membership: N, R, S

Career: A key individual in the US energy industry, Nora has significant experience gained in a variety of roles including Commissioner of the Pennsylvania Public Utility Commission and the Federal Energy Regulatory Commission (FERC) and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company, LLC and Comverge, Inc. Nora is currently a member of the Board of Spectra Energy Partners LP, Direct Energy Advisory Board and the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions, LLC.

Resolution 9:
To re-elect Jonathan Dawson, Non-executive Director

Appointed: 4 March 2013

Committee membership: F, N, R (ch)

Career: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently he was Chairman of the Remuneration Committee, Non-executive and Senior Independent Director of Next plc until May 2015. Jonathan is currently a Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman and a founding partner of Penfida Limited.

Resolution 10:
To re-elect Therese Esperdy, Non-executive Director

Appointed: 18 March 2014, and appointed to the Board of National Grid USA with effect from 1 May 2015

Committee membership: A, F (ch), N

Career: Having started her banking career at Lehman Brothers, Therese joined Chase Securities in 1997 and then held a variety of senior roles at JP Morgan Chase & Co. These included appointments as Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific and Global Chairman of the Financial Institutions Group.

Resolution 11:
To re-elect Paul Golby CBE FREng, Non-executive Director

Appointed: 1 February 2012

Committee membership: A, N, R, S (ch)

Career: A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the energy and utilities industries. Paul was an Executive Director of Clayhithe plc, before later joining E.ON UK plc where he was Chief Executive and later Chairman. He was also a Non-executive Chairman of AEA Technology Group plc. Paul is currently the Chairman of EngineeringUK, the UK National Air Traffic System, the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology. Most recently, Paul was appointed as Chairman of Costain Group plc on 5 May 2016.

Resolution 12:
To re-elect Ruth Kelly, Non-executive Director

Appointed: 1 October 2011

Committee membership: A, F, N

Career: Ruth began her career in Government where she held various senior roles, including Secretary of State for Transport, for Communities and Local Government, for Education and Skills as well as Financial Secretary to the Treasury. She was also a senior executive at HSBC until August 2015. Ruth is currently appointed as Governor for the National Institute of Economic and Social Research and Pro Vice Chancellor at St Mary's University; she has also been a Non-executive Director on the Financial Conduct Authority Board since April 2016.

Resolution 13:
To re-elect Mark Williamson, Non-executive Director and Senior Independent Director

Appointed: 3 September 2012

Committee membership: A (ch), N, R

Career: A qualified accountant with significant financial experience, Mark was Chief Accountant and then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller and later as Chief Financial Officer. Mark was a Non-executive Director at Alent plc where he was Chairman of the Audit Committee and Senior Independent Director. Mark is currently the Chairman of Imperial Brands PLC.

Explanation of resolutions continued

Resolutions 14 and 15:
Auditors' reappointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Resolution 14:
To reappoint the auditors PricewaterhouseCoopers LLP

It is a requirement that the Company's auditors must be reappointed at each general meeting at which accounts are laid, which will normally be at each AGM. This resolution proposes the auditors' reappointment.

As previously announced on 11 November 2015, following a competitive tender process for its statutory audit contract, the Company intends to appoint Deloitte LLP as its auditor for the year ending 31 March 2018. PricewaterhouseCoopers LLP, the Company's current auditors, will continue in their role and will undertake the Company's statutory audit for the year ending 31 March 2017, subject to reappointment by shareholders at this year's AGM. The appointment of Deloitte LLP will be recommended to shareholders for consideration at the 2017 AGM.

Resolution 15:
To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

The Audit Committee will consider and approve the audit fees on behalf of the Board in accordance with the Competition and Markets Authority Audit Order 2014 which came into force from 1 January 2015.

Resolution 16:
Directors' Remuneration Report

This resolution deals with the remuneration of the Directors and seeks approval of the remuneration paid to the Directors during the year under review.

The Company is required to ask shareholders to approve the remuneration policy section of the Directors' Remuneration Report at least every three years, or if changes have been made to the policy. The remuneration policy was approved by shareholders at the 2014 AGM, and as no changes are proposed to the policy this year, the remuneration policy is not being presented for approval this year. However, the Company is required to propose the remainder of the Directors' Remuneration Report as an advisory resolution each year.

This means that, should shareholders vote against the Directors' Remuneration Report, the Directors can still be paid but the Remuneration Committee will reconsider the remuneration policy going forward. The Directors' Remuneration Report (excluding the excerpts from Directors' remuneration policy set out within the Directors' Remuneration Report) is set out on pages 68 to 70 and 75 to 81 of the Annual Report.

Resolution 17:
To authorise Directors to make political donations

In line with other FTSE companies, for the first time this year and as a precautionary measure only, the Directors are seeking shareholders' authority for the Company to make political donations and to incur European Union ('EU') political expenditure, as defined by the 2006 Act.

The 2006 Act requires companies to obtain shareholders' authority for donations to registered political parties within the EU and other political organisations totalling more than £5,000 in any twelve-month period, and for any EU political expenditure, subject to limited exceptions. However, the definitions of these terms in the 2006 Act 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 (for example trade organisations). 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 Company has no intention of changing its current practice of not making political donations or incurring EU political expenditure within the ordinary meaning of those words. The Directors consider, however, that it is in the best interests of shareholders for the Company to participate in public debate and opinion-forming on matters which affect its business. To avoid inadvertent infringement of the 2006 Act, the Directors are seeking shareholders' authority, on a precautionary basis only, for the Company and its UK subsidiaries to make political donations and to incur EU political expenditure for the period from the date of the AGM to the conclusion of next year's.

Resolution 18:
To authorise the Directors to allot ordinary shares

The purpose of resolution 18 is to renew the Directors' power to allot shares. The authority will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £142,321,321 (representing approximately 1,248,942,207 ordinary shares of $11\frac{17}{43}$ pence each), which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 18 May 2016.

The Directors consider that the Company will have sufficient flexibility with this lower level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to 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.

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. The Company believes these circumstances are unlikely to arise. However, if required for this purpose, 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 annum.

This authority will be subject to renewal annually. If the resolution is passed, the authority will expire at the earlier of the close of the next AGM and 25 October 2017.

As at 18 May 2016, the number of ordinary shares in issue was 3,924,038,086 and the Company held 177,211,465 treasury shares, representing 4.73% of the issued share capital excluding treasury shares.

Resolutions 19, 20 and 21 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolution 19:
To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share plan), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights).

Part (i) of this resolution seeks shareholders' approval to allot a limited number of ordinary shares or other equity securities, or sell treasury shares, for cash on a pre-emptive basis but subject to such exclusions or arrangements as the Directors may deem appropriate to deal with certain legal, regulatory or practical difficulties. For example, in a pre-emptive rights issue, there may be difficulties in relation to fractional entitlements or the issue of new shares to certain shareholders, particularly those resident in certain overseas jurisdictions. The Board has no current intention of exercising the authority under part (i) of this resolution but considers the authority to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue having made appropriate exclusions or arrangements to address such difficulties.

In addition, there may be circumstances when the Directors consider it in the best interests of the Company to allot a limited number of ordinary shares or other equity securities, or sell treasury shares for cash on a non pre-emptive basis. Part (ii) of this resolution seeks shareholders' approval to undertake such an allotment up to an aggregate nominal value of £42,696,396.

In March 2015, an updated Statement of Principles was published by the Pre-emption Group. The updated Statement of Principles now allows authority to be sought for the allotment of new shares in connection with a non pre-emptive offer or rights issue or otherwise, equivalent to 10% of the total issued ordinary share capital of the Company (excluding treasury shares) in connection with an acquisition or specified capital investment (which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment).

The Directors intend to continue to adhere to the provisions of the Pre-emption Group's Statement of Principles, as updated in March 2015, not to allot shares on a non pre-emptive basis (other than pursuant to a pre-emptive offer) (a) in excess of an amount equal to 5% of the total issued ordinary share capital of the Company (excluding treasury shares), or (b) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company over a rolling three year period, without prior consultation with shareholders, in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment. Accordingly, the resolution seeks approval for the allotment of new issues of up to 374,682,662 new ordinary shares for cash, representing 10% of the issued share capital (excluding treasury shares) as at 18 May 2016.

This limit also applies to shares issued from treasury. A renewal of this authority is intended to be proposed at each subsequent AGM.

Resolution 20:
To authorise the Company to purchase its own ordinary shares

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base.

The Company will seek to purchase shares where the Directors believe this would be in the best interests of shareholders generally, for example, to manage share dilution created by take-up of the scrip dividend option that is above the level required to maintain appropriate balance sheet strength. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

Further to the explanatory note to resolution 18, share issuance arising from the operation of the scrip dividend scheme may be actively managed through the repurchase of the Company's shares. It is expected that such issuance under the scrip dividend scheme, or such associated repurchases, will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum. It is intended that, in line with recent practice, repurchased shares will be held as treasury shares.

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

During the year ended 31 March 2016 the Company purchased 31,690,010 ordinary shares in the capital of the Company, representing approximately 1% of the called up share capital of the Company as at 31 March 2016 (excluding treasury shares) at a total cost of £267,109,568. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum.

As at 18 May 2016, options were outstanding over 27,365,884 ordinary shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 21:
To authorise the Directors to hold general meetings on 14 working days' notice

The UK Corporate Governance Code, requires companies to call general meetings, other than AGMs, on a minimum of 14 working days' notice. Statutory provisions and the Articles allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 clear days' notice. The Directors believe it is appropriate, and in the interest of shareholders, to comply with the Code's provision on notice periods by increasing the notice period beyond the statutory minimum in such circumstances to 14 working days. Under Section 307A of the 2006 Act, annual shareholder approval is required to call such meetings on such notice (rather than on 21 days' notice). Accordingly, to retain flexibility, the Directors are seeking authority again this year to be able to call general meetings on not less than 14 working days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on such notice.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 23 July 2016 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 23 July 2016 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 18 May 2016 (being the latest practicable date before publication of this Notice of AGM), there were 3,924,038,086 ordinary shares in issue, carrying one vote each, and 177,211,465 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 18 May 2016 is 3,746,826,621.

3. Holders of ordinary shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will, as applicable, have been sent a personalised Proxy Card or alternatively will be able to complete a proxy form online at www.nationalgridshareholders.com.

6. To be valid, Proxy Cards must be received by no later than 11.30am on Saturday 23 July 2016, using the pre-paid envelope provided or delivered by post or (during normal business hours) by hand to: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 11.30am on Saturday 23 July 2016. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

8. If this Notice is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 8pm on Friday 22 July 2016. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless (a) answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website in the form of an answer to a question, or (c) answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 10 June 2016, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

14. Copies of the Directors' service contracts or letters of appointment and the Company's Articles will be available for inspection at the registered office of the Company at 1–3 Strand, London WC2N 5EH during normal business hours until the time of the AGM and at The ICC, Broad Street, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

15. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

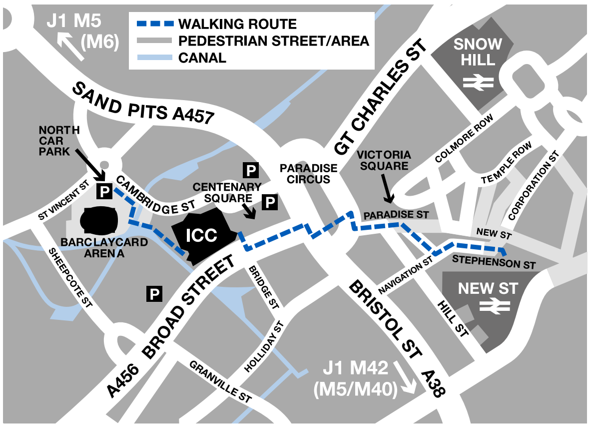
Shareholder Information

The AGM

The AGM will take place at 11.30am on Monday 25 July 2016 at The ICC, Broad Street, Birmingham B1 2EA (see map below). Registration for the AGM will open at 10am.

Venue

For location and travel details to The ICC, please visit www.theicc.co.uk/find-us. For walking route details, please visit www.walkit.com. Limited free car parking will be available adjacent to the venue (Barclaycard Arena North Car Park) on a 'first come, first served' basis. Car parking for shareholders with special access requirements is also available. Shareholders walking to the AGM from Birmingham New Street Station should leave the station via the New Street/Victoria Square exit.



If you can attend the meeting

Please bring your notification card if received in hard copy or a copy of the email notification if we communicate with you electronically, as this will help with registration.

Tea and coffee will be available before the meeting and a light lunch will be provided after the meeting in the main hall. Please note that food and drink are not permitted in the auditorium.

You will be asked to pass through our security systems before entering the meeting. For your personal safety and security there may be checks and searches conducted. Please do not bring suitcases, large bags or rucksacks. If you do we may ask you to leave the item in the cloakroom.

Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the main hall.

Capita Asset Services will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company's activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, you consent to being filmed.

Accessibility

The ICC is easily accessible by wheelchair users and has lift access inside. An induction loop is available for shareholders with hearing difficulties.

If you cannot attend

You can follow the meeting by watching our webcast online at www.nationalgrid.com.

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods (as applicable):

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:

  Capita Asset Services
  PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU

- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on page 9 for details.

To be valid, Proxy Cards must be received by 11.30am on Saturday 23 July 2016 and CREST Proxy Instructions by 8pm on Friday 22 July 2016.

Please note that proxy votes can only be submitted via paper Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting

Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

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, by email or visits at home. If you receive any such unsolicited contact, 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.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Annual Report, contact details overleaf. Alternatively, the Annual Report and this Notice of Meeting are available at www.nationalgrid.com in the Investors section.

Glossary

Annual Report the Company's Annual Report and Accounts for the year ended 31 March 2016

Articles the Articles of Association of the Company

Capita Asset Services is a trading name of Capita Registrars Limited

UK Corporate Governance Code or **Code** the UK Corporate Governance Code issued in September 2014

CREST the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK & Ireland Limited is the operator

Directors the directors of National Grid plc

London Stock Exchange the London Stock Exchange plc

National Grid or **Company** National Grid plc

ordinary shares ordinary shares of $11\frac{17}{43}$ pence each in the capital of the Company

Scrip Dividend Scheme the National Grid plc Scrip Dividend Scheme subject to the terms and conditions approved by shareholders at the AGM held on 28 July 2014, as amended from time to time

shareholder a holder of ordinary shares in the capital of the Company

share portal the National Grid share portal, www.nationalgridshareholders.com

National Grid share portal
Manage your shareholding wherever and whenever

- Register your AGM vote
- Sign up for electronic communications to receive email communications and electronic dividend confirmations instead of paper
- Have your dividends paid directly to your bank or building society account instead of receiving cheques
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Update your address details

It only takes a few minutes to register, just visit www.nationalgridshareholders.com and have your 11 digit investor code (IVC) to hand.

Your dividend options

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

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

Receive your dividends as additional shares

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

Local currency dividend payments

- If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

For more information about your dividend options or for terms and conditions of any of the services offered, please contact Capita Asset Services or, if you are attending the AGM, please speak to a representative from Capita Asset Services.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Notice of Meeting, Annual Report and Accounts or a paper Proxy Card.

Alternatively all these documents (except the Proxy Card) are available at www.nationalgrid.com.

Capita Asset Services
0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. 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. Calls outside the UK will be charged at the applicable international rate.

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

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

nationalgrid

Notice of 2017 Annual General Meeting

The 2017 Annual General Meeting of National Grid plc (the 'Company') will be held at 11.30am on Monday 31 July 2017 at The ICC, 8 Centenary Square, Birmingham B1 2EA.

This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from an independent professional advisor. If you have sold or otherwise transferred all your shares, please pass this document together with the accompanying documents to the person who arranged the sale or transfer so they can pass these to the person who now holds the shares.

Resolutions

The Annual General Meeting ('AGM') will consider the following resolutions, which in the case of resolutions 20 to 23 will be proposed as special resolutions with the remainder being proposed as ordinary resolutions.

1. To receive the Company's accounts for the year ended 31 March 2017, the Directors' Reports and the Auditors' Report on the accounts.

2. To declare a final dividend of 29.10 pence per Ordinary Share (US$1.8924 per American Depositary Share ('ADS') for the year ended 31 March 2017.

3. To re-elect Sir Peter Gershon as a Director.

4. To re-elect John Pettigrew as a Director.

5. To re-elect Andrew Bonfield as a Director.

6. To re-elect Dean Seavers as a Director.

7. To re-elect Nicola Shaw as a Director.

8. To re-elect Nora Mead Brownell as a Director.

9. To re-elect Jonathan Dawson as a Director.

10. To elect Pierre Dufour as a Director.

11. To re-elect Therese Esperdy as a Director.

12. To re-elect Paul Golby as a Director.

13. To re-elect Mark Williamson as a Director.

14. To appoint Deloitte LLP as the Company's auditors until the conclusion of the next general meeting at which accounts are laid before the Company.

15. To authorise the Directors to set the auditors' remuneration.

16. To approve the Directors' remuneration policy set out on pages 58 to 62 in the Annual Report and Accounts for the year ended 31 March 2017 ('the Annual Report').

17. To approve the Directors' Remuneration Report (excluding the Directors' remuneration policy referred to in resolution 16), set out on pages 54 to 71 in the Annual Report.

18. To authorise the Company and those companies which are subsidiaries of the Company at any time during the period for which this resolution has effect for the purposes of Part 14 of the Companies Act 2006 (the '2006 Act'):

(i) to make political donations to political parties, and/or independent election candidates not exceeding £125,000 in aggregate;

(ii) to make political donations to political organisations other than political parties, not exceeding £125,000 in aggregate; and

(iii) to incur political expenditure, not exceeding £125,000 in aggregate,

provided that the aggregate amount of any such donations and expenditure shall not exceed £125,000 during the period commencing on the date of passing of this resolution and ending at the earlier of the close of the next AGM and 31 October 2018.

Words and expressions defined for the purpose of the 2006 Act shall have the same meaning in this resolution.

19. To authorise the Directors generally and unconditionally, in accordance with Section 551 of the 2006 Act, to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £142,593,621.

This authority shall expire at the earlier of the close of the next AGM and 31 October 2018 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require shares to be allotted or subscription or conversion rights to be granted after such expiry and the Directors may allot shares or grant rights in accordance with such offer or agreement as if the authority conferred had not expired.

20. Subject to the passing of resolution 19 set out above, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this authority shall be limited to:

(i) any such allotment or sale in connection with a pre-emptive offer; and

(ii) any such allotment or sale, otherwise than pursuant to a pre-emptive offer, of equity securities up to an aggregate nominal value of £21,389,043.

This authority shall expire at the earlier of the close of the next AGM and 31 October 2018 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly and treasury shares to be sold after such expiry and the Directors may allot equity securities and sell treasury shares in accordance with such offer or agreement as if the authority conferred had not expired.

21. Subject to the passing of resolution 19 set out above and in addition to any authority granted under resolution 20, to authorise the Directors, in accordance with Section 570 of the 2006 Act, to allot equity securities wholly for cash, including a sale of treasury shares, as if Section 561 of the 2006 Act did not apply to any such allotment or sale, provided that this authority shall be:

(i) limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £21,389,043; and

(ii) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

This authority shall expire at the earlier of the close of the next AGM and 31 October 2018 except that the Directors shall be entitled, at any time prior to the expiry of this authority, to make an offer or enter into an agreement which would, or might, require equity securities to be allotted wholly or partly and treasury shares to be sold after such expiry and the Directors may allot equity securities and sell treasury shares in accordance with such offer or agreement as if the authority conferred had not expired.

22. To authorise the Company generally and unconditionally, for the purpose of Section 701 of the 2006 Act, to make market purchases of its Ordinary Shares provided that:

(i) the maximum number of Ordinary Shares that may be acquired is 344,116,240 being 10% of the Company's issued share capital (excluding treasury shares) as at 22 May 2017;

(ii) the minimum price per Ordinary Share that may be paid for any such shares is 12 204/473 pence; and

(iii) the maximum price per share that may be paid for any such shares is not more than the higher of: (a) an amount equal to 105% of the average closing price for an Ordinary Share, as derived from the London Stock Exchange Official List, for the five business days immediately prior to the day on which the purchase is made; and (b) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share as stipulated by Commission-adopted Regulatory Technical Standards pursuant to article 5(6) of the Market Abuse Regulation.

This authority shall expire at the earlier of the close of the next AGM and 31 October 2018 except that the Company shall be entitled, at any time prior to the expiry of this authority, to make a contract of purchase which would, or might, be executed wholly or partly after such expiry and to purchase Ordinary Shares in accordance with such contract as if the authority conferred had not expired.

23. To authorise the Directors, in accordance with the Company's articles of association ('Articles'), to call a general meeting of the Company, other than an AGM, on not less than 14 clear days' notice.

The Directors believe the proposals set out in resolutions 1 to 23 are in the best interests of shareholders as a whole and they unanimously recommend that shareholders vote in favour of each of the resolutions as they intend to do in respect of their own holdings.

On behalf of the Board

Alison Kay
Group General Counsel & Company Secretary
22 May 2017
National Grid plc

Registered Office: 1–3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Explanation of resolutions

Resolutions 20 to 23 will be proposed as special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

The remaining resolutions are being proposed as ordinary resolutions and will be passed if more than 50% of the votes cast (not counting votes withheld) are in favour.

Resolution 1:
To receive the Annual Report

The Company is required to present its report and accounts to shareholders at its AGM.

Copies of the full Annual Report will be available at the AGM. This document is also available on the Company's website at www.nationalgrid.com. Paper copies can be obtained from Capita Asset Services, see the back page for contact details.

Resolution 2:
To declare a final dividend

The Company requires shareholder approval to pay a final dividend. The dividend cannot exceed the amount recommended by the Directors. If approved, the final dividend of 29.10 pence per Ordinary Share (US$1.8924 per ADS) will be paid on 16 August 2017 to shareholders on the register of members at the close of business on 2 June 2017. The dividend is to be paid in respect of each Ordinary Share other than those Ordinary Shares in respect of which a valid election has been made, pursuant to the Company's scrip dividend scheme, to receive new Ordinary Shares instead of the final dividend in cash. Dividends are declared in both pence and US$ to ensure that holders of both Ordinary Shares and ADSs are paid the declared dividend on the same day.

Resolutions 3–13:
Election and re-election of Directors

The Company's Articles require that any Director appointed to the Board retire and seek election by shareholders at their first AGM following appointment and subsequent re-election at least once every three years. Accordingly, following the appointment of Pierre Dufour on 16 February 2017, Pierre will seek election at this AGM. Additionally, in accordance with the UK Corporate Governance Code 2016 (the 'Code'), it is proposed, with the exception of Ruth Kelly, that all other Directors seek re-election at the AGM this year. As announced on 20 April 2017, due to personal circumstances and time commitments Ruth Kelly informed the Company that she would not be seeking re-election by shareholders at the AGM.

When making its recommendation to the Board in respect of the election or re-election of the Directors, the Nominations Committee considers the balance of skills, experience, independence and knowledge on the Board and reviews the commitment and effectiveness of each Director. Each Director proposed for re-election has also been subject to a formal performance evaluation which had regard to that Director's ability to promote the success of the Company, whilst having due regard to other stakeholders.

Accordingly, the Board has resolved that the Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties to the Company. Additionally, the Board has determined that, other than the Chairman, each of the Non-executive Directors at year-end continues to be independent.

The Board considers the independent character and judgement of the Non-executive Directors and varied and relevant experience of all the Directors combine to provide an appropriate balance of skills and knowledge which is of great benefit to the Company and, therefore, the Board recommends the election of Pierre Dufour and the re-election of all other Directors, with the exception of Ruth Kelly.

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

Resolution 3:
To re-elect Sir Peter Gershon CBE FREng, Chairman

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012

Committee membership: N (ch)

Career: Sir Peter is a Fellow of the Royal Academy of Engineering and has had a varied career holding a number of senior positions across multiple industries. His previous appointments include Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. Sir Peter brings to his role of Chairman of the Board extensive general management, government and advisory experience as well as significant board level experience, including a seven-year tenure as Chairman of Tate and Lyle plc from which he retired from on 31 March 2017. Sir Peter currently holds external appointments as a Non-executive Chairman of the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust.

Resolution 4:
To re-elect John Pettigrew FEI, FIET, Chief Executive

Appointed: Joined the Board on 1 April 2014 and became Chief Executive with effect from 1 April 2016

Committee membership: F

Career: John joined the Company in 1991 and progressed through a variety of roles before joining the Board as UK Executive Director in 2014. With over 25 years of varied experience at National Grid, his previous roles include Director of Engineering in the UK, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution and UK Chief Operating Officer from 2012 to 2014. John's extensive experience within the Company brings to the Board a deep understanding of the energy and utilities industry and operation within a regulatory environment as well as a full appreciation of the landscape National Grid works in.

Resolution 5:
To re-elect Andrew Bonfield, Finance Director

Appointed: 1 November 2010

Committee membership: F

Career: Andrew is a chartered accountant with significant financial experience having previously held the position of Chief Financial Officer at Cadbury plc; he also spent five years as Executive Vice President & Chief Financial Officer at Bristol-Myers Squibb, an American pharmaceutical company. Andrew also has prior experience in the energy sector as he was Finance Director of BG Group plc from 2001 to 2002. He currently has an external appointment on the Kingfisher plc Board as a Non-executive Director. Andrew's varied financial experience across several different industries enables him to bring valued and technical expertise to Board meetings through thorough knowledge of the financial industry both in the UK and internationally.

Resolution 6:
To re-elect Dean Seavers, Executive Director, US

Appointed: 1 April 2015

Career: Dean began his career at the Ford Motor Company, moving to Tyco International Ltd where he held various senior management positions before joining General Electric Company/United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association and most recently he has been a lead network member at City Light Capital and President and Chief Executive of Red Hawk Fire & Security, LLC and currently holds an external appointment as a Board member of Red Hawk Fire & Security, LLC. Dean brings to the Board a wide range of financial and customer experience along with significant general management experience with a particular focus on change and performance improvement programmes.

Resolution 7:
To re-elect Nicola Shaw CBE, Executive Director, UK

Appointed: 1 July 2016

Career: Nicola joined the Board in July 2016 as Executive Director following her previous roles as CEO at HS1 plc from 2011 to 2016 and FirstGroup plc from 2005 to 2010. She was also an independent Non-executive Director of Aer Lingus Group plc until September 2015. Nicola's career, both in the UK and overseas, has included roles at the Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport and she is currently a Non-executive Director of Ellevio AB, a Swedish electricity distribution company. Nicola has a broad range of experience and strong track-record working with the UK Government, the European Commission and Parliament and industry Regulators as well as leading important infrastructure businesses which she brings to her role as UK Executive Director on the Board and a member of the Executive Committee.

Explanation of resolutions continued

Resolution 8:
To re-elect Nora Mead Brownell, Non-executive Director

Appointed: 1 June 2012

Committee membership: N, R, S

Career: A key individual in the US energy industry, Nora has significant experience gained in a variety of roles including Commissioner of the Pennsylvania Public Utility Commission and FERC and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc. She is currently a member of the Board of Spectra Energy Partners LP and the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions, LLC. Through her executive experience and her non-executive directorships, Nora brings extensive experience in US Government and regulatory matters to the Board as well as significant expertise in the US utilities industry.

Resolution 9:
To re-elect Jonathan Dawson, Non-executive Director

Appointed: 4 March 2013

Committee membership: F, N, R (ch)

Career: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently Jonathan was Chairman of the Remuneration Committee and Senior Independent Director of Next plc. His extensive experience in the pensions and financial industries brings significant and in-depth understanding in remuneration and financial matters to his role as Chairman of the Remuneration Committee and to the Board. Jonathan is currently Senior Independent Director and Chairman of the Audit and Risk Committee of Jardine Lloyd Thompson Group plc and Chairman and a founding partner of Penfida Limited.

Resolution 10:
To elect Pierre Dufour, Non-executive Director

Appointed: 16 February 2017

Committee membership: N, R, S

Career: Pierre started his career at SNC Lavalin Group, a Canadian engineering, procurement and construction management business. He joined Air Liquide in 1997, later going on to roles such as Chief Executive of the US operations, Chairman of the Board of Air Liquide Canada and several different positions within Air Liquide where he had responsibility for North American operations, while also overseeing safety and industrial risk management and operations in South America, Africa and the Middle East. Pierre then became Senior Executive Vice President of the Air Liquide Group with responsibility for all Air Liquide Group activities across The Americas, Middle East, Africa and Asia. Pierre brings significant safety and engineering knowledge to the Board and, in addition to his executive experience, Pierre is also a Non-executive Director of Archer Daniels Midland.

Resolution 11:
To re-elect Therese Esperdy, Non-executive Director

Appointed: 18 March 2014, and appointed to the Board of National Grid USA with effect from 1 May 2015

Committee membership: A, F (ch), N

Career: Having started her banking career at Lehman Brothers, Therese joined Chase Securities in 1997 going on to hold a variety of senior roles at JPMorgan Chase & Co. These included roles as Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific at JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co. Most recently, Therese was appointed as a Non-executive Director on the Imperial Brands PLC Board on 1 July 2016. Therese has significant experience in the financial services industry where she has operated across international markets and as a result brings this experience and insight to the Board and to her role as Chairman of the Finance Committee.

Resolution 12:
To re-elect Paul Golby CBE FREng, Non-executive Director

Appointed: 1 February 2012

Committee membership: A, N, S (ch)

Career: A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the energy and utilities industries and was an Executive Director of Clayhithe plc, before going on to join E.ON UK plc where he was Chief Executive and later Chairman. Paul also held previous appointments as a Non-executive Chairman of AEA Technology Group plc and Chairman of EngineeringUK. He is currently the Chairman of Costain Group plc, the UK National Air Traffic Services, the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology. Paul has significant experience in energy utilities, and within Government and regulatory industries with a specific background in safety and risk management which he brings to the Board and to his position as Chairman of the Safety, Environment and Health Committee.

Resolution 13:
To re-elect Mark Williamson, Non-executive Director and Senior Independent Director

Appointed: 3 September 2012

Committee membership: A (ch), N, R

Career: A Chartered accountant, Mark has a strong financial background and significant recent and relevant financial experience gained from roles as Chief Accountant and then Group Financial Controller of Simon Group plc, and Financial Controller and later Chief Financial Officer of International Power plc. Mark was also a Non-executive Director at Alent plc where he was Chairman of the Audit Committee and Senior Independent Director. As well as considerable financial experience, Mark brings a thorough knowledge of energy and regulatory matters and provides the Board with valuable insight in this area. Mark is currently Chairman of Imperial Brands PLC and will join the Board of Spectris plc as Non-executive Chairman with effect from 26 May 2017.

Resolutions 14 and 15:
Auditors' appointment and remuneration

The Audit Committee keeps under review the independence and objectivity of the external auditors and reviews fees paid to them, further information on which can be found in the Corporate Governance section of the Annual Report. The Audit Committee has recommended to the Board the appointment of Deloitte LLP.

Resolution 14:
To appoint the auditors Deloitte LLP

It is a requirement that the Company's auditors must be appointed at their first AGM and re-appointed annually thereafter at each general meeting at which accounts are laid before the Company, which will normally be at each AGM. This resolution proposes the appointment of Deloitte LLP as the Company's new auditors for the year ending 31 March 2018.

As previously announced on 11 November 2015, following a competitive tender process for its statutory audit contract, the Company intends to appoint Deloitte LLP as its new auditor for the year ending 31 March 2018, subject to shareholder approval. In light of regulatory changes regarding audit tendering and audit firm rotation, the Board and PricewaterhouseCoopers LLP ('PwC') mutually agreed that PwC would not participate in this tender process. PwC will therefore cease to hold office as the Company's auditor at the conclusion of the AGM and have provided a statement as required by company law, which is set out in Appendix 1.

Resolution 15:
To authorise the Directors to set the auditors' remuneration

This resolution proposes the Directors be authorised to set the auditors' remuneration.

The Audit Committee will consider and approve the audit fees on behalf of the Board in accordance with the Competition and Markets Authority Audit Order 2014.

Resolutions 16 and 17:
Directors' remuneration

These resolutions deal with the remuneration of the Directors and seek approval of the Directors' remuneration policy and the remuneration paid to the Directors during the year under review respectively.

The Company is required to ask shareholders to approve the remuneration policy section of the Directors' Remuneration Report at least every three years; this is set out on pages 58 to 62 of the Annual Report. Resolution 16 is a binding vote, if approved by shareholders it will have immediate binding effect and the Company will not be able to make a remuneration payment to a current or prospective Director or a payment for loss of office to a current or past Director unless that payment is consistent with the current Directors' remuneration policy or has been approved by a resolution of the shareholders of the Company.

The Company is required to propose the remainder of the Directors' Remuneration Report (excluding the Directors' remuneration policy) in resolution 17 as an advisory resolution each year. This means that, should shareholders vote against the Directors' Remuneration Report, the Directors can still be paid but the Remuneration Committee will reconsider the Directors' remuneration policy going forward. The Directors' Remuneration Report is set out on pages 54 to 71 of the Annual Report.

Resolution 18:
To authorise Directors to make political donations

As was the case last year and as a precautionary measure only, the Directors are seeking shareholders' authority for the Company to make political donations and to incur European Union ('EU') political expenditure, as defined by the 2006 Act.

The 2006 Act requires companies to obtain shareholders' approval for donations to registered political parties within the EU and other political organisations totalling more than £5,000

Explanation of resolutions continued

in any twelve-month period, and for any EU political expenditure, subject to limited exceptions. However, the definitions of these terms in the 2006 Act 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 (for example trade organisations). 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 2006 Act states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority proposed in this resolution 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 EU political expenditure within the ordinary meaning of those words. The Directors consider, however, that it is in the best interests of shareholders for the Company to participate in public debate and opinion-forming on matters which affect its business. To avoid inadvertent infringement of the 2006 Act, the Directors are seeking shareholders' authority, on a precautionary basis only, for the Company and its UK subsidiaries to make political donations and to incur EU political expenditure for the period from the date of the AGM to the close of the next AGM.

Resolution 19:
To authorise the Directors to allot Ordinary Shares

The purpose of resolution 19 is to renew the Directors' power to allot shares. The authority will allow the Directors to allot new shares, or to grant rights to subscribe for or convert any security into shares, up to a nominal value of £142,593,621 (representing approximately 1,147,054,136 ordinary shares of 12 204/473 pence each), which is equivalent to approximately 33% of the issued share capital of the Company, exclusive of treasury shares, as at 22 May 2017.

The Directors consider that the Company will have sufficient flexibility with this lower level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to 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.

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. The Company believes these circumstances are unlikely to arise. However, if required for this purpose, 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 annum.

As is normal practice, this authority was also sought and approved at the 2016 AGM. The authority from the 2016 AGM was renewed at the General Meeting of the Company on 19 May 2017. The renewed authority was required due to the change in the nominal value of the ordinary share capital of the Company following a share consolidation which was also approved at the General Meeting. The renewed authority expires at the earlier of the close of this AGM and 25 October 2017.

Pursuant to the original 2016 authority, during the period from the date of the 2016 AGM to the date of the General Meeting (being 19 May 2017), the Company allotted and issued 18,945,361 ordinary shares of 11 17/43 pence each in the capital of the Company, representing approximately 0.5% of the issued share capital of the Company (excluding treasury shares) as at 18 May 2016 (being the reference date used for the purposes of the authority granted at the 2016 AGM). As at 22 May 2017, the Company has not used the renewed 2016 authority granted at the General Meeting and the Directors currently have no intention of using this authority prior to this AGM.

This authority will be subject to renewal annually. If the resolution is passed, the authority will expire at the earlier of the close of the next AGM and 31 October 2018.

As at 22 May 2017, the number of ordinary shares in issue was 3,614,401,483 and the Company held 173,239,075 treasury shares, representing 5.03% of the issued share capital excluding treasury shares.

Resolutions 20 to 23 are special resolutions and will be passed if at least 75% of the votes cast (not counting votes withheld) are in favour.

Resolutions 20 and 21:
To disapply pre-emption rights

If the Directors allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share plan), they must first offer them to existing shareholders in proportion to their existing holdings (known as pre-emption rights).

For the purposes of this resolution:

(a) "pre-emptive offer" means an offer of equity securities open for acceptance for a period fixed by the Directors to (i) holders (other than the Company) on the register on a record date fixed by the Directors of Ordinary Shares in proportion to their respective holdings and (ii) other persons so entitled by virtue of the rights attaching to any other securities held by them, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory;

(b) references to an allotment of equity securities shall include a sale of treasury shares; and

(c) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

The authorities sought in resolutions 20 and 21 were approved as a single resolution at the 2016 AGM. However, in accordance with the Pre-Emption Group's Monitoring Report published in May 2016, the Company has split the authority into two resolutions for the purposes of this AGM. This was also the approach taken at the General Meeting of the Company on 19 May 2017. The authorities will expire at the earlier of the close of the next AGM and 31 October 2018. A renewal of these authorities is intended to be proposed at each subsequent AGM.

Resolution 20

Part (i) of resolution 20 seeks shareholders' approval to allot a limited number of new Ordinary Shares or other equity securities, or sell treasury shares, for cash on a pre-emptive basis but subject to such exclusions or arrangements as the Directors may deem appropriate to deal with certain legal, regulatory or practical difficulties. For example, in a pre-emptive rights issue, there may be difficulties in relation to fractional entitlements or the issue of new shares to certain shareholders, particularly those resident in certain overseas jurisdictions. The Board has no current intention of exercising the authority under part (i) of resolution 20 but considers the authority to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue having made appropriate exclusions or arrangements to address such difficulties.

In addition, there may be circumstances when the Directors consider it in the best interests of the Company to allot a limited number of Ordinary Shares or other equity securities, or sell treasury shares for cash on a non pre-emptive basis. In March 2015, an updated Statement of Principles was published by the Pre-Emption Group. The updated Statement of Principles supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities and sales of treasury shares for cash representing no more than 5% of issued ordinary share capital (exclusive of treasury shares), without restriction as to the use of proceeds of those allotments.

Accordingly, the purpose of part (ii) of resolution 20 is to authorise the Directors to allot new Ordinary Shares and other equity securities pursuant to the allotment authority given by resolution 19, or sell treasury shares, for cash up to a nominal value of £21,389,043, equivalent to 5% of the total issued ordinary share capital of the Company excluding treasury shares and 4.76% of the total issued ordinary share capital of the Company including treasury shares, as at 22 May 2017, without the shares first being offered to existing shareholders in proportion to their existing holdings.

Resolution 21

The updated Statement of Principles also supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities and sales of treasury shares for cash representing no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, and in line with the template resolutions published by the Pre-Emption Group in May 2016, the purpose of resolution 21 is to authorise the Directors to allot new Ordinary Shares and other equity securities pursuant to the allotment authority given by resolution 19, or sell treasury shares, for cash up to a further nominal amount of £21,389,043, equivalent to 5% of the total issued ordinary share capital of the Company excluding treasury shares and 4.76% of the total issued ordinary share capital of the Company including treasury shares, as at 22 May 2017, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 21 is used, the Company will publish details of the placing in its next annual report.

The Directors intend to continue to adhere to the provisions of the updated Statement of Principles and not to allot shares or other equity securities or sell treasury shares for cash on a non pre-emptive basis pursuant to the authority in resolution 21 in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company, excluding treasury shares, within a rolling three-year period, other than:

(i) with prior consultation with shareholders; or

(ii) in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The Directors consider the authorities in resolutions 20 and 21 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions.

Explanation of resolutions continued

Resolution 22:
To authorise the Company to purchase its own Ordinary Shares

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base.

As is normal practice, this authority was also sought and approved at the 2016 AGM. The authority from the 2016 AGM was renewed at a General Meeting of the Company on 19 May 2017. The renewed authority was required due to a change to the nominal value of the ordinary share capital of the Company following a share consolidation also approved at the General Meeting in May. The renewed authority expires at the earlier of the close of this AGM and 25 October 2017 and so, in accordance with normal practice, the authority in this resolution 22 is being sought.

As explained at the General Meeting in May, it is intended that approximately £835 million of the proceeds from the sale of a majority interest in the Company's UK gas distribution business will be returned to shareholders by way of purchase of the Company's Ordinary Shares. If this resolution is passed, the Directors may use this authority in this context to return part of such amount to shareholders by way of on-market purchases of the Company's shares.

In addition, the Company will seek to purchase shares where the Directors believe this would be in the best interests of shareholders generally, for example, to manage share dilution created by take-up of the scrip dividend option that is above the level required to maintain appropriate balance sheet strength. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

Further to the explanatory note to resolution 19, share issuance arising from the operation of the scrip dividend scheme may be actively managed through the repurchase of the Company's shares. It is expected that such issuance under the scrip dividend scheme, or such associated repurchases, will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum. It is intended that, in line with recent practice, repurchased shares will be held as treasury shares.

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

During the year ended 31 March 2017, the Company purchased 19,602,361 ordinary shares of 11 17/43 pence each in the capital of the Company, representing approximately 0.5% of the called up share capital of the Company as at 31 March 2017 (excluding treasury shares) at a total cost of £188,922,589. This resolution complies with investor guidelines, which limit share purchases to 10% of the issued share capital (excluding treasury shares) per annum.

As at 22 May 2017, options were outstanding over 23,442,583 Ordinary Shares, representing approximately 1% of the issued share capital (excluding treasury shares). If the proposed market purchase authority were used in full, shares over which these options were outstanding would represent approximately 1% of the adjusted share capital (excluding treasury shares).

Resolution 23:
To authorise the Directors to hold general meetings on 14 clear days' notice

The Company's Articles allow the Directors to call general meetings of the Company, other than AGMs, on a minimum of 14 clear days' notice. Under Section 307A of the 2006 Act, annual shareholder approval is required to call such meetings on such notice (rather than on 21 days' notice). Accordingly, to retain flexibility, the Directors are seeking authority this year to be able to call general meetings, other than AGMs, on not less than 14 clear days' notice. The approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. In order to provide maximum flexibility and in line with market practice, the notice period proposed this year is 14 clear days as opposed to 14 working days which was the period proposed last year. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and it is thought to be to the advantage of shareholders as a whole. The Company will make available to all shareholders an electronic voting facility for any meeting held on 14 clear days' notice. Notice given for the General Meeting held on 19 May 2017 was 21 clear days.

Notes

1. To be entitled to attend and vote at the AGM, shareholders must be included in the register of members of the Company as at 6pm on Saturday 29 July 2017 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM. They shall be entitled to vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6pm on Saturday 29 July 2017 or, in the event that this AGM is adjourned, in the register of members 48 hours before the time of any adjourned AGM, shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. As at 22 May 2017 (being the latest practicable date before publication of this Notice of AGM), there were 3,614,401,483 Ordinary Shares in issue, carrying one vote each, and 173,239,075 shares in treasury. Shares held in treasury do not have voting rights. Therefore, the total number of voting rights exercisable as at 22 May 2017 is 3,441,162,408.

3. Holders of Ordinary Shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company.

4. Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

5. A shareholder of the Company who is entitled to attend, speak and vote at the AGM but is unable or does not wish to attend is entitled to appoint a proxy or proxies to attend, speak and vote on his/her behalf. A proxy does not need to be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Unless specified otherwise, the Chairman of the Company will act as proxy and vote on a poll as directed by the appointing shareholder. Shareholders will, as applicable, have been sent a personalised Proxy Card or alternatively will be able to complete a proxy form online at www.nationalgridshareholders.com.

6. To be valid, Proxy Cards must be received by no later than 11.30am on Saturday 29 July 2017, using the pre-paid envelope provided or delivered by post or (during normal business hours) by hand to: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively, shareholders can complete the proxy form online at www.nationalgridshareholders.com by no later than 11.30am on Saturday 29 July 2017. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

7. For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

8. If this Notice of AGM is sent to you as a person nominated to receive copies of Company communications, the proxy rights described above do not apply. The rights described in these paragraphs only apply to shareholders. You may have a right under an agreement with the registered member to be appointed (or have someone else appointed) as a proxy for the AGM, and you are advised to contact them. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have a right under such agreement to give instructions to the registered member holding the shares as to the exercise of voting rights.

9. A corporate shareholder may appoint one or more corporate representatives on its behalf who may exercise all of its powers as a shareholder provided they do not do so in relation to the same shares.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual available via www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

Notes continued

11. Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA10) by 8pm on Friday 28 July 2017. After this time, any change to instructions to proxies appointed through CREST should be communicated to the agent by other means. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Shareholders have the right to ask questions at the AGM which the Company must cause to have answered if they relate to the business being dealt with at the meeting unless (a) answering such questions would unduly interfere with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website in the form of an answer to a question, or (c) answering the questions would be undesirable in the interests of the Company or the good order of the meeting.

13. Shareholders meeting the threshold requirements in Section 338 and Section 338A of the 2006 Act have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 16 June 2017, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

14. Copies of the Directors' service contracts or letters of appointment and the Company's Articles will be available for inspection at the registered office of the Company at 1–3 Strand, London WC2N 5EH during normal busines hours until the time of the AGM and at The ICC, 8 Centenary Square, Birmingham B1 2EA from 15 minutes before the AGM until it ends.

15. Copies of this Notice of AGM, the Annual Report and information required by Section 311A of the 2006 Act are available on the Company's website at www.nationalgrid.com. Shareholders should note it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Section 527 or Section 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement the Company has been required under Section 527 of the 2006 Act to publish on a website.

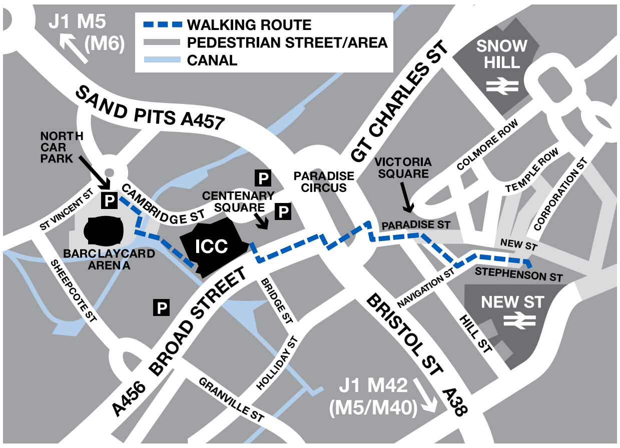
Shareholder Information

The AGM

The AGM will take place at 11.30am on Monday 31 July 2017 at The ICC, 8 Centenary Square, Birmingham B1 2EA (see map below). Registration for the AGM will open at 10am.

Venue

For location and travel details to The ICC, please visit www.theicc.co.uk/find-us. For walking route details, please visit www.walkit.com. Limited free car parking will be available adjacent to the venue (Barclaycard Arena North Car Park) on a 'first come, first served' basis. In order to register for free car parking, shareholders will need to visit the ParkJockey website (www.parkjockey.com/barclaycard-arena-events), choose the date of the AGM, select 'ICC Parking' and register using the code NGAGM31. If you do not enter this code you will be charged the full price for parking. If you have any questions in relation to the parking please contact ParkJockey on +44 (0) 2078 428508 or info@parkjockey.com. Car parking for shareholders with special access requirements is also available. Shareholders walking to the AGM from Birmingham New Street Station should leave the station via the New Street/Victoria Square exit.



If you can attend the meeting

Please bring your notification card if received in hard copy or a copy of the email notification if we communicate with you electronically, as this will help with registration.

Tea and coffee will be available before the meeting and a light lunch will be provided after the meeting in the main hall. Please note that food and drink are not permitted in the auditorium.

You will be asked to pass through our security systems before entering the meeting. For your personal safety and security there may be checks and searches conducted. Please do not bring suitcases, large bags or rucksacks. If you do we may ask you to leave the item in the cloakroom.

Recording equipment, cameras and other items that might interfere with the good order of the meeting will not be permitted into the main hall or auditorium. Mobile phones must be turned off or on silent during the meeting.

If there is a question that you wish to ask at the meeting, we would encourage you to pre-register your question with a member of the team at the Question Registration area in the main hall.

Capita Asset Services will be available before and after the meeting to answer any questions you may have regarding your shareholding. National Grid staff will also be available to answer any questions you may have on the Company's activities.

The meeting will be filmed for webcast purposes. If you attend the meeting in person, you may be included in the webcast. Please note that the webcast footage may be transferred outside the European Economic Area. By attending the meeting, you consent to being filmed.

Accessibility

The ICC is easily accessible by wheelchair users and has lift access inside. An induction loop is available for shareholders with hearing difficulties.

If you cannot attend the meeting

Watch our webcast

If you cannot attend you can follow the meeting by watching our webcast online at www.nationalgrid.com.

Appoint a Proxy

In order to vote on the resolutions being proposed at the AGM, you will need to appoint a proxy using one of the following methods (as applicable):

- Complete the proxy form online at www.nationalgridshareholders.com
- Complete, date and sign the paper Proxy Card enclosed with this Notice and return it using the pre-paid envelope provided or deliver it by hand during normal business hours to:

  Capita Asset Services PXS
  34 Beckenham Road
  Beckenham
  Kent BR3 4TU
- If you are a CREST member you can submit a message via CREST, please see notes 10 and 11 on pages 11 and 12 for details.

To be valid, Proxy Cards must be received by 11.30am on Saturday 29 July 2017 and CREST Proxy Instructions by 8pm on Friday 28 July 2017.

Please note that proxy votes can only be submitted via paper Proxy Cards returned to the address stated, electronically via www.nationalgridshareholders.com or via CREST. Proxy votes cannot be submitted via any other means of communication.

The return of a completed Proxy Card or CREST Proxy Instruction will not prevent you from attending the AGM and voting in person if you wish to do so.

Voting

Each of the resolutions to be put to the meeting will be voted on by a poll and not by a show of hands. A poll reflects the number of voting rights exercisable by each shareholder and so the Directors consider it a more democratic method of voting. The results will be published on the Company's website and notified to the UK Listing Authority once the votes have been verified.

For further details relating to the voting and participation rights of shareholders, please refer to the Company's Articles, copies of which are available on the Company's website at www2.nationalgrid.com/about-us/corporate-governance/.

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, by email or visits at home. If you receive any such unsolicited contact, 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.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Annual Report. Their contact details are overleaf. Alternatively, the Annual Report and this Notice of Meeting are available at www.nationalgrid.com in the Investors section.

Glossary

Annual Report the Company's Annual Report and Accounts for the year ended 31 March 2017

ADS American Depository Shares

Articles the Articles of Association of the Company

Capita Asset Services is a trading name of Capita Registrars Limited

Code the UK Corporate Governance Code was published in September 2014 (the code) and updated in 2016

CREST the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK & Ireland Limited is the operator

Directors the directors of National Grid plc

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

London Stock Exchange the London Stock Exchange plc

National Grid or **Company** National Grid plc

Ordinary Shares ordinary shares of 12 204/473 pence each in the capital of the Company (for the avoidance of doubt, this definition takes into account the change in nominal value of the ordinary shares of the Company from 11 17/43 pence each to 12 204/473 pence each that occurred as a result of the share consolidation approved at the general meeting of the Company on 19 May 2017)

Scrip Dividend Scheme the National Grid plc Scrip Dividend Scheme subject to the terms and conditions approved by shareholders at the AGM held on 28 July 2014, as amended from time to time

Shareholder a holder of Ordinary Shares in the capital of the Company

Share portal the National Grid share portal, www.nationalgridshareholders.com

Appendix 1 – Auditors’ Statement of Reasons

pwc

The Directors
National Grid plc
1 – 3 Strand
London
WC2N 5EH

18th May 2017

Dear Sirs,

Statement of Reasons connected with ceasing to hold office as Auditors

In accordance with Section 519 of the Companies Act 2006 (the “Act”), we set out below the reasons connected with PricewaterhouseCoopers LLP registered auditor number C001004062, ceasing to hold office as auditors of National Grid plc, registered no: 4031152 (the “Company”) effective from 31st July 2017

The reason we are ceasing to hold office is that the Company undertook a competitive tender process for the position of statutory auditor and we mutually agreed with the Audit Committee not to participate due to the time of our tenure.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP 1 Embankment Place, London, WC2N 6RH
T· +44 (0) 2075 835 000, F· +44 0) 2072 124 652, www.pwc.co.uk

National Grid share portal

Manage your shareholding wherever and whenever

- Register your AGM vote
- Sign up for electronic communications to receive email communications and electronic dividend confirmations instead of paper
- Have your dividends paid directly to your bank or building society account instead of receiving cheques
- Choose to receive your dividends in shares, via our Scrip Dividend Scheme
- Update your address details

It only takes a few minutes to register, just visit www.nationalgridshareholders.com and have your 11 digit investor code (IVC) to hand.

Your dividend options

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

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

Receive your dividends as additional shares

- Join our Scrip Dividend Scheme
- No stamp duty or commission to pay

Local currency dividend payments

- If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency

For more information about your dividend options or for terms and conditions of any of the services offered, please contact Capita Asset Services or, if you are attending the AGM, please speak to a representative from Capita Asset Services.

Want more information or help?

Capita Asset Services can help with shareholding queries and can provide you with a copy of the Notice of Meeting, Annual Report and Accounts or a paper Proxy Card.

Alternatively all these documents (except the Proxy Card) are available at www.nationalgrid.com.

Capita Asset Services
0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. 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. Calls outside the UK will be charged at the applicable international rate.

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

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