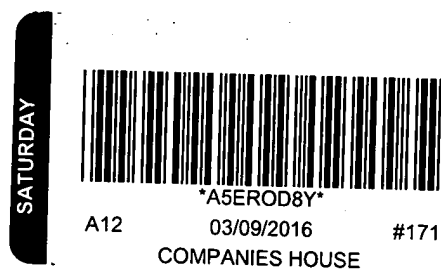


Company Registration Number: 2367004

National Grid Holdings One plc

Annual Report and Financial Statements

For the year ended 31 March 2016



National Grid Holdings One plc

Strategic Report

For the year ended 31 March 2016

The Directors present their Strategic Report on the Company for the year ended 31 March 2016.

Review of the business

The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany balances.

The Company holds investments in various intermediate holding companies including National Grid Holdings Limited (whose subsidiaries include National Grid Electricity Transmission plc which operates the electricity transmission system in England and Wales) and Lattice Group plc (whose subsidiaries include National Grid Gas plc which operates the gas transmission system and four of the eight regional gas distribution networks in Great Britain).

Executive summary

This is the first time that the Company has prepared financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006. There were no material measurement or recognition adjustments on the adoption of FRS 101. The results outlined below are in accordance with FRS 101.

There have been no significant changes in the Company's trading activities during the year as reported in the income statement. During the year the Company received dividends from National Grid Holdings Limited of £310 million (2015: £655 million), Lattice Group plc of £620 million (2015: £700 million) and National Grid Interconnectors Limited of £nil (2015: £90 million).

In addition, during March 2016 the Directors have approved and implemented a number of steps as part of a wider group restructuring project involving a number of its direct subsidiaries which have identified as companies no longer required by the National Grid group. These steps included:

- the transfer of a 100% shareholding in the ordinary share capital of British Transco Finance (No 1) Limited from a fellow subsidiary undertaking for a consideration of £1;
- the transfer of a 100% shareholding in the ordinary and preference share capital of British Transco Finance (No 2) Limited from its subsidiary undertaking for a consideration of £100 million and £915 million respectively;
- a further investment in the ordinary share capital of British Transco Finance (No 1) Limited for a consideration of £318 million which was settled by the release of an intercompany debt; and
- the receipt of dividends totalling £1,307 million from its subsidiary British Transco Finance (No 2) Limited.

Following the receipt of these dividends the Directors reviewed the carrying value of its investments and considered it appropriate to make a provision of £1,333 million through the income statement for its investments in these two subsidiaries.

Results, as detailed below, largely depend on investment income received offset by investment provisions and interest costs incurred.

Results

The Company's profit for the financial year was £825 million (2015: £1,381 million).

National Grid Holdings One plc

Strategic Report (continued)

For the year ended 31 March 2016

Financial position

The financial position of the Company is presented in the statement of financial position. Total shareholders' equity at 31 March 2016 was £4,940 million (2015: £5,045 million) comprising fixed asset investments of £13,244 million (2015: £13,244 million) less net current liabilities of £8,304 million (2015: £8,199 million)

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2015/16, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the income statement will continue in the foreseeable future with no anticipated significant movements in the statement of financial position.

The Strategic Report was approved by the Board and signed on its behalf by:



A Morgan
Company Secretary
10 August 2016

National Grid Holdings One plc

Directors' Report

For the year ended 31 March 2016

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Dividends

An interim ordinary dividend of £930 million (2015: £1,355 million) was paid during the year.

The Directors do not recommend the payment of a final ordinary dividend (2015: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate cash flow and foreign currency risks. These risks are monitored through a National Grid Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

The Company finances its operations through a combination of retained profits, new share issues and intercompany loans to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

Credit risk

No material exposure is considered to exist in respect of intercompany loans.

Interest rate cash flow risk

The Company has both interest bearing intercompany assets and interest bearing intercompany liabilities. To the extent that the Company enters into intercompany loan agreements, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon Euro, US dollar and sterling LIBOR.

Foreign currency risk

To the extent that the Company enters into intercompany loan and both intercompany and external derivative agreements in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. At the reporting date the Company has intercompany loan and derivative agreements denominated in Euros and US dollars.

National Grid Holdings One plc

Directors' Report (continued)

For the year ended 31 March 2016

Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts and interest rate swaps are entered into for the purposes of hedging interest rate and foreign exchange risk. These derivative financial instruments are recorded at fair value in the financial statements. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. In other cases, fair values have been calculated using quotations from independent financial institutions, or by discounting expected cash flows at prevailing market rates.

As at 31 March 2016 the fair value of these derivative financial instruments resulted in an asset of £53 million (2015: £8 million) and a liability of £51 million (2015: £5 million). The net notional principal of these contracts was £1,734 million (2015: £562 million). The future expected cash flows from these derivatives are affected by changes in the Euro/GBP and USD/GBP exchange rate. The contracts have fixed settlement dates.

Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were:

A J Agg	(Appointed 4 January 2016)
D C Bonar	
A R J Bonfield	
M C Cooper	(Resigned 4 January 2016)
E D Fraser	(Resigned 30 October 2015)
S J Holliday	(Resigned 31 March 2016)
S C Humphreys	
W J Jackson	
A K Mead	(Appointed 7 December 2015)
J M Pettigrew	(Appointed 31 March 2016)
C J Waters	
A S Wiltshire	

Directors' indemnity

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

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic Report. In addition within the Directors' Report there are details of the Company's financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

National Grid Holdings One plc

Directors' Report (continued)

For the year ended 31 March 2016

Modern Slavery Act 2015

In accordance with the Modern Slavery Act 2015 (section 54 part 6), the Board of National Grid Holdings One plc has adopted and approved the Statement on the prevention of slavery and human trafficking of its parent company, National Grid plc. A copy of the Statement is available on the National Grid plc website.

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

National Grid Holdings One plc

Directors' Report (continued)

For the year ended 31 March 2016

The Directors' Report was approved by the Board and signed on its behalf by:



A Morgan
Company Secretary
10 August 2016

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 2367004

Independent auditors' report to the members of

National Grid Holdings One plc

Report on the financial statements

Our opinion

In our opinion, National Grid Holdings One plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), comprise:

- the statement of financial position as at 31 March 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of

National Grid Holdings One plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

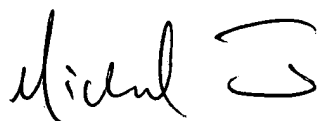
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Michael Timar (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 August 2016

National Grid Holdings One plc

Income statement

For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
Operating charges		(7)	(1)
Operating loss	2	<u>(7)</u>	<u>(1)</u>
Amounts written off fixed asset investments	8	(1,333)	(4)
Income from shares in subsidiary undertakings		2,238	1,449
Interest receivable and similar income	4	73	64
Interest payable and similar charges	5	(163)	(153)
Profit on ordinary activities before tax		<u>808</u>	<u>1,355</u>
Tax on profit on ordinary activities	6	17	26
Profit for the financial year		<u><u>825</u></u>	<u><u>1,381</u></u>

The results reported above relate to continuing activities.

Statement of comprehensive income

For the year ended 31 March 2016

	2016 £m	2015 £m
Profit for the financial year	825	1,381
Other comprehensive income/(loss) for the year, net of tax	-	-
Total comprehensive income for the year	<u><u>825</u></u>	<u><u>1,381</u></u>

National Grid Holdings One plc

Statement of financial position

As at 31 March 2016

	Notes	2016 £m	2015 £m
Fixed asset investments	8	<u>13,244</u>	<u>13,244</u>
Current assets			
Debtors: amounts falling due within one year	9	6,094	6,023
Debtors: amounts falling due after more than one year	9	40	3
Current asset investments	10	2	2
Cash at bank and in hand		1	1
		<u>6,137</u>	<u>6,029</u>
Creditors: amounts falling due within one year	11	<u>(14,441)</u>	<u>(14,228)</u>
Net current liabilities		<u>(8,304)</u>	<u>(8,199)</u>
Total assets less current liabilities		<u>4,940</u>	<u>5,045</u>
Net assets		<u>4,940</u>	<u>5,045</u>
Equity			
Share capital	13	176	176
Share premium account		335	335
Revaluation reserve		624	624
Other reserves		3	3
Profit and loss account		3,802	3,907
Total shareholders' equity		<u>4,940</u>	<u>5,045</u>

The financial statements on pages 9 to 24 were approved by the Board of Directors on 10 August 2016 and signed on its behalf by:



W J Jackson
Director

National Grid Holdings One plc
Company registration number: 2367004

National Grid Holdings One plc
Statement of changes in equity
For the year ended 31 March 2016

	Share capital £m	Share premium account £m	Revaluation and other reserve (i) £m	Profit and loss account £m	Total equity £m
At 1 April 2014	176	335	627	3,881	5,019
Profit for the year-	-	-	-	1,381	1,381
Dividends paid (note 7)	-	-	-	(1,355)	(1,355)
At 31 March 2015	176	335	627	3,907	5,045
Profit for the year	-	-	-	825	825
Dividends paid (note 7)	-	-	-	(930)	(930)
At 31 March 2016	176	335	627	3,802	4,940

- i. Represented by a revaluation reserve of £624 million and other reserve of £3 million.

During the year ended 31 March 1999, the Company acquired all of the ordinary shares in National Grid Holdings Limited in exchange for shares in subsidiary undertakings, including National Grid Electricity Transmission plc (at that date 'The National Grid Company plc'). The carrying value of National Grid Holdings Limited within fixed asset investments represents the value attributable to the initial investment in The National Grid Company plc, which was acquired for no consideration and was based on a pro-forma net asset value at the date of acquisition, plus all additional investments at cost. As a result of this transaction a revaluation reserve of £624 million was created.

National Grid Holdings One plc
Notes to the financial statements
For the year ended 31 March 2016

1. Summary of significant accounting policies

National Grid Holdings One plc is a public company and is incorporated and domiciled in England with its registered office at 1-3 Strand, London, WC2N 5EH.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements for the year ended 31 March 2016 are the first prepared in accordance with FRS 101. Accordingly the date of transition is 1 April 2014. The 2015 comparative financial information has also been prepared on this basis.

There were no material measurement or recognition adjustments on the adoption of FRS 101.

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis except for the revaluation of derivative financial instruments and items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the Company's functional currency.

These financial statements are presented in the format as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements, as it is included within the consolidated financial statements of National Grid plc.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosure in respect of transactions with National Grid plc and its subsidiaries;
- disclosure in respect of capital management;
- the presentation of a third statement of financial position (being the opening statement of financial position of the Company at the date of application of FRS 101); and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of National Grid plc which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2017.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

There were no critical areas of judgements required in pulling together these financial statements. Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the valuation of financial instruments and derivatives.

(b) Fixed asset investments

Investments in subsidiary undertakings are held at cost less any provisions for impairment.

The Company assesses at the end of each reporting period whether events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

(c) Tax

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, to the extent that the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss, deferred tax assets and liabilities are not recognised.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

1 Summary of significant accounting policies (continued)

(c) Tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also reflected in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authorities and the Company intends to settle their current tax assets and liabilities on a net basis.

(d) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All other foreign exchange gains and losses are presented in the income statement within other operating income or expense.

(e) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired is recognised using the effective interest method in the income statement.

Current asset financial investments are recognised at fair value on the balance sheet. Borrowings, which include interest-bearing loans and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Derivative financial instruments ('derivatives') are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

1 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Where derivatives are embedded in other financial instruments that are closely related to those instruments, no adjustment is made with respect to such derivative clauses. Otherwise the derivative is recorded separately at fair value on the statement of financial position.

The fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

(f) Hedge accounting

The Company enters into derivatives and non derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps and forward foreign currency contracts.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement. The Company has used hedge accounting to hedge investments in overseas subsidiary undertakings.

Changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the income statement. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement immediately.

(g) Dividends

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised in the financial year in which they are approved.

2. Operating loss

Operating loss is stated after charging audit fees of the Company of £35,000 (2015: £34,000) and audit fees of fellow subsidiary undertakings of £112,000 (2015: £73,000).

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

3. Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 7 Directors (2015: 8) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2015: none).

4. Interest receivable and similar income

	2016 £m	2015 £m
Interest receivable from subsidiary undertakings	3	3
Interest receivable from fellow subsidiary undertakings	3	4
Interest receivable from immediate parent company	2	1
Exchange gains on revaluation of foreign currency denominated intercompany loans	8	28
Changes in fair value of intercompany derivatives	19	-
Changes in fair value of external derivatives	38	28
	<u>73</u>	<u>64</u>

5. Interest payable and similar charges

	2016 £m	2015 £m
Interest payable to subsidiary undertakings	63	11
Interest payable to fellow subsidiary undertakings	28	75
Interest payable to immediate parent company	6	10
Exchange losses on revaluation of foreign currency denominated intercompany loans	2	6
Changes in fair value of inter company derivatives	49	51
Changes in fair value of external derivatives	15	-
	<u>163</u>	<u>153</u>

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2016

6. Tax on profit on ordinary activities

	2016 £m	2015 £m
Current tax:		
UK corporation tax	(18)	(25)
Adjustments in respect of prior years	-	(1)
Total current tax	<u>(18)</u>	<u>(26)</u>
Deferred tax:		
Origination and reversal of timing differences	<u>1</u>	<u>-</u>
Tax credit on profit on ordinary activities	<u>(17)</u>	<u>(26)</u>

The tax credit for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below.

	2016 £m	2015 £m
Profit on ordinary activities before tax	<u>808</u>	<u>1,355</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 21%)	162	284
Effect of:		
Expenses not deductible for tax purposes	267	1
Non-taxable income from shares in subsidiary undertakings	(448)	(304)
Taxation on transfer pricing adjustments	2	(6)
Adjustments in respect of prior years	-	(1)
Total tax credit for the year	<u>(17)</u>	<u>(26)</u>

Factors that may affect future tax charges

The Finance Act 2015 (No.2) (the Act) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020 and deferred tax balances have been calculated at 18%.

The Budget in March this year announced a further reduction in the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. This has not been substantively enacted at the reporting date. As the change to 17% had not been substantively enacted at the reporting date its effects are not included in these financial statements.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

7. Dividends

	2016 £m	2015 £m
Equity - ordinary dividends		
Interim paid: 62.08p (2015: 90.45p) per share	<u>930</u>	<u>1,355</u>

8. Fixed asset investments

	Shares in subsidiary undertakings
Cost:	
At 1 April 2015	13,248
Additions	1,333
Disposals	(4)
At 31 March 2016	<u>14,577</u>
Provision:	
At 1 April 2015	4
Charge for the year	1,333
Disposals	(4)
At 31 March 2016	<u>1,333</u>
Net book value:	
At 31 March 2016	<u>13,244</u>
At 31 March 2015	<u>13,244</u>

During the current year the Directors have approved and implemented a number of steps as part of a wider group restructuring project involving a number of its direct subsidiaries which have identified as companies no longer required by the National Grid group. These steps included on 30 March 2016:

- the transfer of a 100% shareholding in the ordinary share capital of British Transco Finance (No 1) Limited from a fellow subsidiary undertaking for a consideration of £1;
- the transfer of a 100% shareholding in the ordinary and preference share capital of British Transco Finance (No 2) Limited from its subsidiary undertaking for a consideration of £100 million and £915 million respectively;
- a further investment in the ordinary share capital of British Transco Finance (No 1) Limited for a consideration of £318 million which was settled by the release of an intercompany debt; and
- the receipt of dividends totalling £1,307 million from its subsidiary British Transco Finance (No 2) Limited.

Following the receipt of these dividends the Directors reviewed the carrying value of its investments and considered it appropriate to make a provision of £1,333 million through the income statement for both these companies. Both British Transco Finance (No 1) Limited and British Transco Finance (No 2) Limited entered liquidation on 31 March 2016.

In addition to the above the Company's subsidiaries: Lattice Opsco Limited, National Grid Netherlands One BV, National Grid Netherlands Two BV and National Grid Netherlands Three BV were officially dissolved and have been reflected as disposals in the analysis above.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

8 Fixed asset investments (continued)

As previously reported in the prior year:

- On 20 October 2014 and 10 March 2015 respectively, the Directors agreed to transfer the Company's entire shareholdings in National Grid Eighteen Limited and National Grid (Ireland) 1 Limited to its subsidiary, National Grid Holdings Limited at book values of £1,536 million and £2,601 million which resulted in no profit or loss on transfer. The consideration due was left outstanding on intercompany account.
- On 6 March 2015, the Company received dividends totalling £4 million from its subsidiaries, National Grid Netherlands One BV, National Grid Netherlands Two BV and National Grid Netherlands Three BV. Following the receipt of these dividends the Directors reviewed the carrying values of these investments and considered it appropriate to make provisions totalling £4 million through the income statement.

The fixed asset investments at 31 March 2016 were as follows:

Name of subsidiary	Principal activity
British Transco Finance (No 1) Limited	In liquidation
British Transco Finance (No 2) Limited	In liquidation
Gas Distribution Property Holdings Limited (previously National Grid Thirty Eight Limited)	Dormant
KeySpan (U.K.)	In liquidation
Lattice Group plc	Investment company
National Grid Belgium Limited	Dormant
National Grid Carbon Limited	Carbon capture
National Grid Gas Distribution Limited (previously National Grid Thirty Seven Limited)	Dormant
National Grid Holdings Limited	Investment company
National Grid Interconnector Holdings Limited	Holding company
National Grid Interconnectors Limited	Interconnector between the UK and France
National Grid Jersey Investments Limited	Investment company
National Grid Offshore Limited	Dormant
National Grid Thirty Four Limited	Dormant
National Grid UK Limited	Investment company

For the above subsidiaries the Company holds 100% of the ordinary share capital and each of the companies are registered in England and Wales with the exception of British Transco Finance (No 1) Limited and British Transco Finance (No 2) Limited which are incorporated in the Cayman Islands and National Grid Jersey Investments Limited which is incorporated in Jersey.

The Directors believe that the carrying value of the investments is supported by the fair value of their underlying net assets.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

8 Fixed asset investments (continued)

The Company also controls indirectly through its subsidiary undertakings a number of companies split between subsidiaries and joint ventures and associates as listed below. These undertakings are wholly owned unless otherwise indicated.

The following indirectly owned subsidiary undertakings are registered in England and Wales:

Name of subsidiary

Beegas Nominees Limited
Birch Sites Limited
Carbon Sentinel Limited
Gridcom Limited
Icelink Interconnector Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Trustees Limited
Natgrid Finance Holdings Limited*
Natgrid Finance Limited*
Natgrid Limited
National Grid Blue Power Limited
National Grid Commercial Holdings Limited
National Grid Eighteen Limited*
National Grid Electricity Group Trustee Limited
National Grid Electricity Transmission plc
National Grid Energy Metering Limited
National Grid Five Limited*
National Grid Four Limited
National Grid Fourteen Limited
National Grid Gas Finance plc
National Grid Gas Holdings Limited
National Grid Gas plc
National Grid Grain LNG Limited
National Grid IFA2 Limited
National Grid International Limited
National Grid Land and Properties Limited*
National Grid Metering Limited
National Grid Nine Limited*

National Grid North Sea Link Limited
National Grid Property (High Wycombe) Limited*
National Grid Property Holdings Limited
National Grid Property Limited*

Name of subsidiary

National Grid Property (Northfleet) Limited**
National Grid Property (Taunton) Limited*
National Grid Seven Limited*
National Grid Seventeen Limited
National Grid Smart Limited
National Grid Thirty Five Limited
National Grid Thirty Limited
National Grid Thirty Six Limited
National Grid Three Limited*
National Grid Twenty Eight Limited
National Grid Twenty Four Limited*
National Grid Twenty Seven Limited
National Grid UK Pension Services Limited
National Grid Viking Link Limited
National Grid William Limited
NG Nominees Limited
NGC Employee Shares Trustee Limited
NGG Telecoms Holdings Limited*
NGG Telecoms Limited*
Ngrid Intellectual Property Limited
NGT Telecom No. 1 Limited
Port Greenwich Limited
Stargas Nominees Limited
Supergrid Electricity Limited
Supergrid Energy Transmission Limited
Supergrid Limited
Telecom International Holdings Limited*
Thamesport Interchange Limited
The National Grid Group Quest Trustee Limited
The National Grid YouPlan Trustee Limited
Transco Limited
Xoserve Limited (56.5%)

* Dissolved 14 April 2016

** In liquidation

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

8 Fixed asset investments (continued)

The following indirectly owned subsidiary undertakings are overseas incorporated:

Name of subsidiary	Incorporated in
British Transco Capital Inc.	US
British Transco Finance, Inc.	US
British Transco International Finance B.V.	Netherlands
Inversiones ABC Limitada* (98.84%)	Chile
Lattice Telecom Finance (No 1) Limited*	Isle of Man
National Grid (IOM) UK Limited**	Isle of Man
National Grid (Ireland) 1***	Republic of Ireland
National Grid (Ireland) 2***	Republic of Ireland
National Grid Australia Pty Limited	Australia
National Grid Holdings B.V.	Netherlands
National Grid Insurance Company (Ireland) Limited	Republic of Ireland
National Grid Insurance Company (Isle of Man) Limited	Isle of Man
NG Jersey Limited	Jersey
NGT Five Limited****	Cayman Islands
NGT Four Limited****	Cayman Islands
NGT Holding Company (Isle of Man) Limited	Isle of Man
SCC Uno S.A. (80.1%)	Chile

* In liquidation

** Dissolved 30 May 2016

*** Dissolved 1 July 2016

**** Dissolved 14 April 2016

The following indirectly owned are joint ventures:

Name of joint venture	Incorporated in
BridNed Development Limited (50%)	England and Wales
Joint Radio Company Limited (50%)	England and Wales
Nemo Link Limited (50%)	England and Wales
NGET/SPT Upgrades Limited (50%)	England and Wales
St William Homes LLP (50%)	England and Wales

The following indirectly owned are associates:

Name of associate	Incorporated in
Coreso SA (20%)	Belgium
Energis plc (33.06%)	England and Wales

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2016

9. Debtors

	2016 £m	2015 £m
Amounts falling due within one year:		
Derivative financial instruments (note 12)	13	6
Amounts owed by subsidiary undertakings	4,707	4,661
Amounts owed by fellow subsidiary undertakings	887	1,315
Amounts owed by immediate parent company	487	41
	<u>6,094</u>	<u>6,023</u>

	2016 £m	2015 £m
Amounts falling due after more than one year:		
Derivative financial instruments (note 12)	40	2
Deferred tax	-	1
	<u>40</u>	<u>3</u>

Deferred tax

	2016 £m	2015 £m
Other short term timing differences	-	1
Deferred tax asset	<u>-</u>	<u>1</u>

	2016 £m	2015 £m
Deferred tax asset at 1 April	1	1
Charged to the income statement	(1)	-
Deferred tax asset at 31 March	<u>-</u>	<u>1</u>

10. Current asset investments

	2016 £m	2015 £m
Investments in short term money funds	<u>2</u>	<u>2</u>

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2016

11. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Borrowings*	16	-
Derivative financial instruments (note 12)	51	5
Amounts owed to subsidiary undertakings	8,220	8,079
Amounts owed to fellow subsidiary undertakings	5,419	5,323
Amounts owed to immediate parent company	668	763
Corporation tax payable	64	54
Other creditors	3	4
	<u>14,441</u>	<u>14,228</u>

* Borrowings represent a bank loan payable.

12. Derivative financial instruments

The maturity of derivative financial instruments is as follows:

	2016 Assets £m	2016 Liabilities £m	Total £m
Amounts falling due within one year	13	(51)	(38)
Amounts falling due after one year	40	-	40
	<u>53</u>	<u>(51)</u>	<u>2</u>

	2015 Assets £m	2015 Liabilities £m	Total £m
Amounts falling due within one year	6	(5)	1
Amounts falling due after one year	2	-	2
	<u>8</u>	<u>(5)</u>	<u>3</u>

For each class of derivative the notional contract* amounts are as follows:

	2016 £m	2015 £m
Forward foreign exchange contracts	(1,734)	(562)
	<u>(1,734)</u>	<u>(562)</u>

* The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

13. Share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
1,498 million ordinary shares of 11 13/17 pence each	<u>176</u>	<u>176</u>

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2016

14. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At the reporting date the sterling equivalent amounted to £4 million (2015: £6 million).

15. Related party transactions

The Company is exempt under FRS 101.8k from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

16. Ultimate parent company

The immediate and ultimate parent and controlling company is National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales.

Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.