

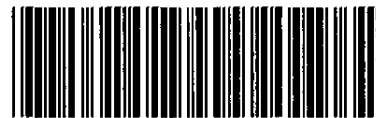
Company Registration Number: 2367004

National Grid Holdings One plc

Annual Report and Financial Statements

For the year ended 31 March 2018

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National Grid Holdings One plc
Strategic Report
For the year ended 31 March 2018

The Directors present their Strategic Report on National Grid Holdings One plc ('the Company') for the year ended 31 March 2018.

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 Limited (whose subsidiaries include National Grid Gas plc which operates the gas transmission system and, up to 31 March 2017, four of the eight regional gas distribution networks in Great Britain).

Executive summary

The Company continues to operate as an investment holding company, and its income largely reflects dividend income from its subsidiary and joint venture interests. Following the sale of the UK Gas Distribution business on 31 March 2017 to Quadgas HoldCo Limited (in exchange for an interest in that company) the Company has accounted for its investment in Quadgas HoldCo Limited as an associate throughout the year.

During the year, the Company received dividends from its subsidiary, National Grid Holdings Limited, of £950 million (2017: £nil) and from its associate, Quadgas HoldCo Limited, of £144 million (2017: £nil). During the prior year the Company received dividends from its subsidiaries, Lattice Group Limited of £5,917 million and National Grid Gas Distribution Limited of £95 million related to the sale of the UK Gas Distribution business.

On 26 March 2018, the Directors agreed to enter into an intercompany loan offset agreement with its subsidiary undertaking, National Grid Holdings Limited. As a result, an aggregate sum of £1,553 million payable to its subsidiary undertaking was offset against a receivable.

As fully described in note 8 to the financial statements, on 1 May 2018, National Grid announced that it had entered into the Remaining Acquisition Agreement (RAA) with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited for cash proceeds of approximately £1.2 billion. At 31 March 2018 an impairment review of the Company's interests in Quadgas HoldCo Limited was undertaken, comparing the aggregate carrying value of these interests against the future dividend income and proceeds the Company would expect to receive under the Further Acquisition Agreement and RAA. This resulted in a charge of £86 million, recorded as impairment against the carrying value of the investment.

There have been no other significant movements in the Company's investments or changes to intercompany balances.

Results, as detailed below, largely depend on investment income received.

Results

The Company's profit for the financial year was £1,022 million (2017: £7,682 million).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2018 was £4,426 million (2017: £4,354 million) comprising fixed asset investments of £14,838 million (2017: £14,855 million) less net current liabilities of £10,292 million (2017: £10,280 million) less long term creditors and provisions of £120 million (2017: £221 million).

National Grid Holdings One plc

Strategic Report (continued)

For the year ended 31 March 2018

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 2017/18, which does not form part of this report.

Future developments

The Directors believe the current level of underlying trading activity as reported in the profit and loss account will continue in the foreseeable future with no anticipated significant movements in the balance sheet.

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



A Morgan
Company Secretary
8 August 2018

National Grid Holdings One plc

Directors' Report

For the year ended 31 March 2018

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Future developments

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

Dividends

Interim ordinary dividends totalling £950 million (2017: £8,268 million) were paid during the year. The Directors do not recommend the payment of a final dividend (2017: £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 exchange risks. These risks are monitored through a National Grid Treasury ('Treasury') management function which invests surplus funds, mitigates foreign exchange and interest rate 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 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

The Company aims to reduce the risk of loss arising from default by parties to financial transactions. The Company holds an approved list of counterparties of good credit quality and these counterparties and their credit ratings are routinely monitored. No exposure is considered to exist in respect of intercompany loans as these are fully recoverable within the National Grid group.

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 exchange 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 balance sheet date the Company has intercompany loan or derivative agreements denominated in Euros (EUR), US dollars (USD), Swedish krona (SEK) and Norwegian krona (NOK).

National Grid Holdings One plc

Directors' Report (continued)

For the year ended 31 March 2018

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 2018 the fair value of these derivative financial instruments resulted in an asset of £182 million (2017: £68 million) and a liability of £74 million (2017: £67 million). The net notional principal of these contracts was £3,176 million (2017: £1,839 million). The future expected cash flows from these derivatives are affected by changes in the Euro/GBP, SEK/GBP, NOK/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	
D C Bonar	(Resigned 26 April 2018)
A R J Bonfield	(Resigned 30 July 2018)
S W Grant	(Appointed 10 August 2017)
S C Humphreys	
W J Jackson	(Resigned 10 August 2017)
A M Lewis	(Appointed 13 November 2017)
A K Mead	
J M Pettigrew	
C J Waters	
A S Wiltshire	(Resigned 13 November 2017)

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 in a net current liabilities position, but 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. In completing this analysis the Directors have considered the ability of the National Grid group to provide such finance.

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 2018

Events after the reporting period

As detailed in note 8, on 1 May 2018, National Grid announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited. Refer to note 8 on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.

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. This confirmation is given in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

At the 2017 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were appointed as external auditor to the group. Accordingly, Deloitte LLP were appointed auditor of the Company replacing PricewaterhouseCoopers LLP for the year ended 31 March 2018.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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.

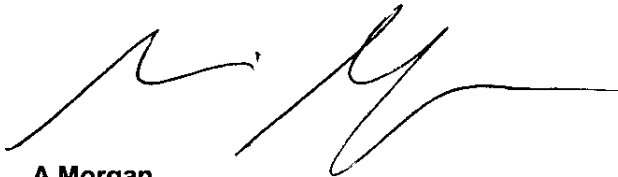
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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 2018

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

A handwritten signature in black ink, appearing to be 'A Morgan', written over a horizontal line.

A Morgan
Company Secretary
8 August 2018

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 2367004

Independent auditor's report to the members of

National Grid Holdings One plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Grid Holdings One plc ('the Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the summary of significant accounting policies (note 1); and
- the related notes 2 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('the FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are

Independent auditor's report to the members of

National Grid Holdings One plc (continued)

Other information (continued)

required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of

National Grid Holdings One plc (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Makhan Chahal (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

8 August 2018

National Grid Holdings One plc
Profit and loss account
For the year ended 31 March 2018

	Notes	2018 £m	2017 £m
(Loss)/profit on sale of fixed asset investments	8	(49)	1,749
Amounts written off fixed asset investments	8	(86)	(6)
Income from fixed asset investments		1,094	6,012
Interest receivable and similar income	4	194	120
Interest payable and similar charges	5	(143)	(202)
Profit before tax	2	1,010	7,673
Tax	6	12	9
Profit for the financial year		1,022	7,682

The results reported above relate to continuing activities.

There have been no other comprehensive income/losses during either the current or prior year other than as disclosed in the profit and loss account and therefore no separate statement of comprehensive income has been presented.

National Grid Holdings One plc

Balance sheet

As at 31 March 2018

	Notes	2018 £m	2017 £m
Fixed asset investments	8	14,838	14,855
Current assets			
Debtors (amounts falling due within one year)	9	4,398	6,038
Debtors (amounts falling due after more than one year)	9	517	495
Current asset investments	10	-	2
Total current assets		4,915	6,535
Creditors (amounts falling due within one year)	11	(15,207)	(16,815)
Net current liabilities		(10,292)	(10,280)
Total assets less current liabilities		4,546	4,575
Creditors (amounts falling due after more than one year)	11	(110)	(61)
Provision for liabilities and charges	13	(10)	(160)
Net assets		4,426	4,354
Equity			
Share capital	14	176	176
Share premium account		335	335
Revaluation reserve		624	624
Other reserves		3	3
Profit and loss account		3,288	3,216
Total shareholders' equity		4,426	4,354

The financial statements on pages 10 to 25 were approved by the Board of Directors on 8 August 2018 and were signed on its behalf by:



S W Grant
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 2018

	Share capital £m	Share premium account £m	Revaluation Reserve (i) £m	Other reserve £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2016	176	335	624	3	3,802	4,940
Profit for the financial year	-	-	-	-	7,682	7,682
Equity dividends (note 7)	-	-	-	-	(8,268)	(8,268)
At 31 March 2017	176	335	624	3	3,216	4,354
Profit for the financial year	-	-	-	-	1,022	1,022
Equity dividends (note 7)	-	-	-	-	(950)	(950)
At 31 March 2018	176	335	624	3	3,288	4,426

(i) 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 2018

1. Summary of significant accounting policies

National Grid Holdings One plc is a public company, limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and domiciled in England with its registered office at 1-3 Strand, London, WC2N 5EH.

(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 have been prepared 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 are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2017 comparative financial information has also been prepared on this basis.

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend for it to do so, for at least one year from the date the financial statements are signed.

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 in a net current liabilities position, but 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. In completing this analysis the Directors have considered the ability of the National Grid group to provide such finance.

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.

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, which are publicly available.

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; 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 2018.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

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.

A critical area of judgement required in preparing these financial statements involved the assessment of the carrying value of fixed asset investments. 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 derivative financial instruments.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

(b) Tax

The tax credit for the period is recognised in the profit and loss account, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax credit comprises current 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 credit 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 provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(c) Fixed asset investments

Investments in subsidiary undertakings and associate are recorded at cost less any provisions for impairment.

Investments are reviewed for impairment if 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.

(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 on monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

1 Summary of significant accounting policies (continued)

(e) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. An equity instrument is any contract that includes 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 initially recognised at fair value plus transaction costs and subsequently held at amortised cost using the effective interest method. 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 gains and losses when the loans are derecognised or impaired, are recognised in the profit and loss account.

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 profit and loss account 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 profit and loss account in the period they arise.

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 balance sheet.

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.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

1 Summary of significant accounting policies (continued)

(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 profit and loss account. 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 profit and loss account. 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 profit and loss account 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 profit and loss account 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 profit and loss account 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. Profit before tax

Profit before tax is stated after charging audit fees of the Company of £36,000 (2017: £36,000) and audit fees of fellow subsidiary undertakings of £55,000 (2017: £87,000).

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

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 8 Directors (2017: 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 (2017: none).

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

4. Interest receivable and similar income

	2018 £m	2017 £m
Interest receivable from subsidiary undertakings	3	36
Interest receivable from fellow subsidiary undertakings	4	3
Interest receivable from immediate parent company	2	3
Interest receivable from an associate	27	-
Other interest receivable	1	-
Exchange gains on revaluation of foreign currency denominated intercompany loans	7	39
Changes in fair value of intercompany derivatives	30	16
Changes in fair value of external derivatives	120	23
	<u>194</u>	<u>120</u>

5. Interest payable and similar charges

	2018 £m	2017 £m
Interest payable to subsidiary undertakings	56	90
Interest payable to fellow subsidiary undertakings	33	25
Interest payable to immediate parent company	3	5
Other interest payable	1	4
Exchange losses on revaluation of foreign currency denominated intercompany loans	36	8
Changes in fair value of inter company derivatives	9	57
Changes in fair value of external derivatives	5	13
	<u>143</u>	<u>202</u>

6. Tax

	2018 £m	2017 £m
Current tax:		
UK corporation tax	(13)	(9)
Adjustments in respect of prior years	1	-
	<u>(12)</u>	<u>(9)</u>

The tax credit for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained overleaf:

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

6. Tax (continued)

	2018	2017
	£m	£m
Profit before tax	<u>1,010</u>	<u>7,673</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	192	1,534
Effect of:		
Expenses not deductible for tax purposes	26	9
Non-taxable income from shares in subsidiary undertakings	(208)	(1,202)
Non-taxable income	(21)	(352)
Taxation on transfer pricing adjustments	(2)	2
Adjustments in respect of prior years	1	-
Total tax credit for the year	<u>(12)</u>	<u>(9)</u>

Deferred tax assets in respect of capital losses of £6 million (2017: £nil) and non-trade deficits of £1 million (2017: £1 million) have not been recognised as their future recovery is uncertain or not currently anticipated. The capital losses and non-trade deficits are available to carry forward indefinitely and can be offset against specific types of future capital gains and non-trade profits.

There are no other significant unrecognised deferred tax assets or liabilities (2017: £nil).

Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020.

7. Equity dividends

	2018	2017
	£m	£m
Equity - ordinary dividends		
First interim paid: 10.01 pence (2017 :363.93 pence) per share	150	5,454
Second interim paid: 6.68 pence (2017: 187.80) per share	100	2,814
Third interim paid 46.73 pence (2017: nil) per share	700	-
	<u>950</u>	<u>8,268</u>

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

8. Fixed asset investments

	Shares in subsidiary undertakings £m	Shares in an associate £m	Total £m
Cost:			
At 1 April 2017	14,577	1,611	16,188
Additions	-	69	69
Disposals	(1,333)	-	(1,333)
At 31 March 2018	13,244	1,680	14,924
Provision:			
At 1 April 2017	1,333	-	1,333
Charge for the year	-	86	86
Disposals	(1,333)	-	(1,333)
At 31 March 2018	-	86	86
Net book value:			
At 31 March 2018	13,244	1,594	14,838
At 31 March 2017	13,244	1,611	14,855

The disposal of shares in subsidiary undertakings during the year reflects the completion of the liquidations of two subsidiaries, British Transco Finance (No 1) Limited and British Transco Finance (No 2) Limited, on 8 January 2018. These companies were officially dissolved on 17 April 2018.

As previously reported in the prior year, National Grid disposed of a majority stake in its UK Gas Distribution business. The sale completed on 31 March 2017, when the Company disposed of its equity and debt investments in National Grid Gas Distribution Limited and Gas Distribution Property Holdings Limited in exchange for cash consideration of £5,454 million, a shareholder loan of £429 million and a 39% equity interest in Quadgas HoldCo Limited valued at £1,611 million. The Company recognised a profit on sale of the fixed asset investments of £1,749 million in the profit and loss account after deducting transaction costs and a voluntary contribution to be made for the benefit of energy customers.

In addition, a Further Acquisition Agreement (FAA) was signed concerning a 14% interest in Quadgas HoldCo Limited structured as a put/call option. National Grid can deliver a sell notice to sell the shares in Quadgas HoldCo Limited for a three month period starting 30 September 2018 for closing from 1 March 2019. The Consortium can deliver a purchase notice to acquire the shares in Quadgas HoldCo Limited for a three month period starting 1 January 2019 for closing from 1 July 2019. Since the FAA contains derivative features in the form of put/call options, it is required to be accounted for at fair value through profit and loss.

In November 2017 the completion accounts of Quadgas HoldCo Limited were finalised resulting in a payment to Quadgas BidCo Limited of £20 million and a corresponding and proportionate reduction in our shareholder loan of £13 million. Both of these amounts together with transaction costs incurred of £16 million have been recorded as a loss on sale of fixed asset investments in the profit and loss account. In addition, following the finalisation of the completion accounts, there was a capitalisation of the shareholder loan of £69 million.

The fair value of the FAA derivatives is a £110 million asset as at 31 March 2018 (2017: £nil) with the corresponding amount reflected within interest income.

National Grid Holdings One plc
Notes to the financial statements (continued)

For the year ended 31 March 2018

8. Fixed asset investments (continued)

On 1 May 2018, National Grid announced that it had entered into the Remaining Acquisition Agreement (RAA) with Quadgas Investments BidCo Limited (the Consortium) regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited. The RAA contains both put and call options for both National Grid and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019 (subject to giving six months' notice) for cash proceeds of approximately £1.2 billion. The nature of the contractual arrangements in the RAA is substantially the same as those within the FAA.

At 31 March 2018 an impairment review of the Company's interests in Quadgas HoldCo Limited (comprising the FAA derivative, a 39% equity interest and £352 million in shareholder loans) was undertaken, comparing the aggregate carrying value of these interests against the future dividend income and proceeds the Company would expect to receive under the FAA and RAA. This resulted in a charge of £86 million, recorded as impairment against the carrying value of the investment.

The fixed asset investments at 31 March 2018 were as follows:

Name of subsidiary	Principal activity
Lattice Group Limited	Investment company
National Grid Belgium Limited	Dormant
National Grid Carbon Limited	Carbon capture
National Grid Distributed Energy 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 Technologies Limited (previously	Dormant
National Grid Thirty Four Limited	
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 a registered office at 1-3 Strand, London, WC2N 5EH with the exception of National Grid Jersey Investments Limited which is incorporated in Jersey with a registered office at 44 Esplanade, St Helier, Jersey, JE4 9WG, UK.

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

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2018

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.

Incorporated in England and Wales

Registered office: 1-3 Strand, London, WC2N 5EH

Beegas Nominees Limited	National Grid Seventeen Limited
Birch Sites Limited	National Grid Smart Limited
Carbon Sentinel Limited	National Grid Thirty Five Limited
Droylsden Metering Services Limited	National Grid Thirty Six Limited
Gridcom Limited	National Grid Twenty Eight Limited
Icelink Interconnector Limited	National Grid Twenty Seven Limited
Landranch Limited	National Grid UK Pension Services Limited
Lattice Group Employee Benefit Trust Limited	National Grid Ventures Limited
Lattice Group Trustees Limited	National Grid Viking Link Limited
Natgrid Limited	National Grid William Limited
National Grid Blue Power Limited	NG Nominees Limited
National Grid Commercial Holdings Limited	NG Shetland Link Limited
National Grid Electricity Group Trustee Limited	NGC Employee Shares Trustee Limited
National Grid Electricity System Operator Limited	Ngrid Intellectual Property Limited
National Grid Electricity Transmission plc	NGT Telecom No. 1 Limited
National Grid Energy Metering Limited	Port Greenwich Limited
National Grid Four Limited	Stargas Nominees Limited
National Grid Fourteen Limited	Supergrid Electricity Limited
National Grid Gas Holdings Limited	Supergrid Energy Transmission Limited
National Grid Gas plc	Supergrid Limited
National Grid Grain LNG Limited	Thamesport Interchange Limited
National Grid IFA2 Limited	The National Grid Group Quest Trustee Limited
National Grid International Limited	The National Grid YouPlan Trustee Limited
National Grid Metering Limited	Transco Limited
National Grid North Sea Link Limited	Warwick Technology Park Management Company (No 2) Limited (60.56%)
National Grid Property Holdings Limited	

Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA.

British Transco Capital Inc.
British Transco Finance, Inc.

Incorporated in the Netherlands

British Transco International Finance B.V.
Registered office: Westblaak 89, 3012 KG Rotterdam, PO Box 21153, 3001 AD, Rotterdam, Netherlands

National Grid Holdings B.V.
Registered office: Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands.

National Grid Holdings One plc

Notes to the financial statements (continued)

For the year ended 31 March 2018

8 Fixed asset investments (continued)

Incorporated in Australia

National Grid Australia Pty Limited

Registered office: Level 7, 330 Collins Street, Melbourne VIC 3000, Australia

Incorporated in the Isle of Man

National Grid Insurance Company (Isle of Man) Limited

NGT Holding Company (Isle of Man) Limited

Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK

Lattice Telecom Finance (No 1) Limited*

Registered office: 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK.

Incorporated in the Republic of Ireland

National Grid Insurance Company (Ireland) Designated Activity Company

Registered office: Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland.

Incorporated in Jersey

NG Jersey Limited

Registered office: 44 Esplanade, St Helier, Jersey, JE4 9WG, UK

* In liquidation

The following indirectly owned are joint ventures:

Incorporated in England and Wales

Registered office: 1-3 Strand, London, WC2N 5EH (unless stated otherwise in footnotes)

BritNed Development Limited (50%)*

Joint Radio Company Limited (50%)**¹

Nemo Link Limited (50%)

NGET/SPT Upgrades Limited (50%)*²

St William Homes LLP (50%)²

* National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share

** National Grid Gas plc owns all £1.00 A Ordinary shares

*** National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares

1. Registered office: Friars House, Manor House Drive, Coventry, CV1 2TE, UK

2. Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK

Incorporated in France

IFA2 SAS (50%)

Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 – 9291, Paris La Defense, CEDEX, France

The following indirectly owned associate

Incorporated in Belgium

Coreso SA (15.84%)

Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

The following indirectly owned other investment

Incorporated in England and Wales

Energis plc (33.06%)*

Registered office: 1 More London Place, London SE1 2AF

* In administration

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

9. Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Derivative financial instruments (note 12)	17	7
Amounts owed by subsidiary undertakings	3,298	4,665
Amounts owed by fellow subsidiary undertakings	877	804
Amounts owed by immediate parent company	203	426
Corporation tax recoverable	3	136
	<u>4,398</u>	<u>6,038</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

On 26 March 2018, the Directors agreed to enter into an intercompany loan offset agreement with its subsidiary undertaking, National Grid Holdings Limited. As a result, an aggregate sum of £1,553 million payable to its subsidiary undertaking was offset against a receivable.

	2018 £m	2017 £m
Amounts falling due after more than one year		
Derivative financial instruments (note 12)	165	61
Amounts owed by associate	352	434
	<u>517</u>	<u>495</u>

10. Current asset investments

	2018 £m	2017 £m
Investments in short term money funds	<u>-</u>	<u>2</u>

11. Creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Borrowings*	74	70
Derivative financial instruments (note 12)	18	6
Amounts owed to subsidiary undertakings	7,453	9,072
Amounts owed to fellow subsidiary undertakings	7,095	7,226
Amounts owed to immediate parent company	486	371
Other creditors (note 13)	65	3
Accruals	16	67
	<u>15,207</u>	<u>16,815</u>

* Borrowings represent a bank loan payable.

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

11. Creditors (continued)

	2018 £m	2017 £m
Amounts falling due after more than one year		
Derivative financial instruments (note 12)	56	61
Other creditors (note 13)	54	-
	<u>110</u>	<u>61</u>

12. Derivative financial instruments

The fair values of derivative financial instruments are:

	Assets £m	2018 Liabilities £m	Total £m
Amounts falling due within one year	17	(18)	(1)
Amounts falling due after one year	165	(56)	109
	<u>182</u>	<u>(74)</u>	<u>108</u>

	Assets £m	2017 Liabilities £m	Total £m
Amounts falling due within one year	7	(6)	1
Amounts falling due after one year	61	(61)	-
	<u>68</u>	<u>(67)</u>	<u>1</u>

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

	2018 £m	2017 £m
Further Acquisition Agreement (note 8)	(739)	-
Forward foreign exchange contracts	(2,437)	(1,839)
	<u>(3,176)</u>	<u>(1,839)</u>

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

13. Provision for liabilities and charges

	Other £m
At 1 April 2017	160
Reclassification (i)	(150)
At 31 March 2018	<u>10</u>

(i) On 18 July 2017, the Company entered into a funding agreement with Affordable Warmth Solutions CIC for the management and distribution of the £150 million funds allocated from the proceeds of sale of UK Gas Distribution. As a result of entering into a formal agreement the provision has been reclassified under other creditors falling due within one year and greater than one year.

The remaining provision of £10 million (2017: £10 million) is in respect of transaction costs in association with the sale of UK Gas Distribution the expenditure for which is expected to be incurred over the next year.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2018

14. Share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
1,498 (2017: 1,498) million ordinary shares of 11 13/17 pence each	<u>176</u>	<u>176</u>

In line with the provisions of the Companies Act 2006, the Company has amended its Articles of Association and ceased to have authorised share capital.

15. 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 (2017: £4 million).

In addition, as part of the sectionalisation of the National Grid UK Pension Scheme, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total).

16. 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.

As disclosed in notes 8 and 9 to the financial statements the Company holds an 39% investment and shareholder loan in an associate, Quadgas HoldCo Limited. The Company has received dividends of £144 million (2017: £nil) and interest on the shareholder loan of £27 million (2017: £nil).

17. 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.

18. Events after the reporting period

As detailed in note 8, on 1 May 2018, National Grid announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited. Refer to note 8 on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.