



## National Grid North America Inc.

*(incorporated in the State of Delaware, United States of America)*

### Euro 8,000,000,000 Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme (the "**Programme**") described in this prospectus (the "**Prospectus**"), National Grid North America Inc. ("**NGNA**" and the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue debt instruments (the "**Instruments**") denominated in any currency agreed between the Issuer, the Trustee and the relevant Dealer (as defined below). The aggregate nominal amount of Instruments outstanding will not at any time exceed Euro 8,000,000,000 (or its equivalent in other currencies). The Instruments may be issued in registered form only.

Application has been made to the Financial Conduct Authority (the "**U.K. Listing Authority**") under Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**") for Instruments issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the U.K. Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Instruments to be admitted to trading on either the London Stock Exchange's Regulated Market (the "**Market**") or the London Stock Exchange's Professional Securities Market (the "**PSM**"). References in this Prospectus to Instruments being "**listed**" (and all related references) shall mean that such Instruments have been admitted to trading on the Market or the PSM, as the case may be, and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"). The PSM is not a regulated market for the purposes of MiFID II. In the case of Instruments issued under the Programme which are listed on the Official List and admitted to trading on the PSM (the "**PSM Instruments**"), references to the Final Terms contained in this Prospectus shall be construed as references to the pricing supplement substantially in the form set forth in this Prospectus (the "**Pricing Supplement**").

**References in this Prospectus to PSM Instruments are to Instruments for which no prospectus is required to be published under the Prospectus Directive (as defined below). For the purposes of any PSM Instruments issued pursuant to this Programme, this document does not constitute a base prospectus within the meaning of Article 2.1 of the Prospectus Directive and will instead constitute Listing Particulars (as defined below).**

The Instruments have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**"). The Instruments may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, registration under the Securities Act. For a description of certain restrictions on offers and sales of Instruments and on distribution of this Prospectus or any Final Terms, see "Plan of Distribution".

Each Series (as defined in "Overview of the Programme") of Instruments will be represented by registered certificates (each, a "**Certificate**" and, together, the "**Certificates**"). One Certificate will be issued in respect of each Instrumentholder's holding of Instruments of each Series. Instruments issued in global registered form will initially be represented by a temporary registered global certificate ("**Temporary Global Certificate**"). Beneficial interests in a Temporary Global Certificate will be exchangeable for a permanent registered global certificate ("**Permanent Global Certificate**") and, together with the Temporary Global Certificate, "**Global Certificate**" not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership. If a Global Certificate is to be held under the New Safekeeping Structure (the "**NSS**") it will be delivered on or prior to the original issue date of the relevant Tranche (as defined on page 3) to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") or such other clearing systems as may be agreed upon by the Issuer, the Trustee and the relevant Dealer(s).

Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depository**") or a depository for such other clearing systems as may be agreed upon by the Issuer, the Trustee and the relevant Dealer(s).

The provisions governing the exchange of interests in any Global Certificate for definitive Instruments are described in "Summary of Provisions Relating to the Instruments while in Global Form".

The senior unsecured debt of NGNA has been rated 'Baa1' by Moody's Investors Service Ltd. ("**Moody's**") and 'BBB+' by Standard & Poor's Ratings Services LLC ("**S&P**"). Credit ratings included or referred to in this Prospectus have been issued by Moody's and S&P. Moody's is established in the European Union and is registered under Regulation (EC) No 1060/2009 (as amended, the "**CRA Regulation**"). S&P is not established in the European Union and has not applied for registration under the CRA Regulation. Tranches (as defined in "Overview of the Programme") of Instruments to be issued under the Programme may be rated or unrated. Where a Tranche of Instruments is rated, such rating will be specified in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in Instruments issued under the Programme involves certain risks. For a discussion of such risks, see the section headed "Risk Factors" in this Prospectus.

#### Programme Arranger

HSBC

#### Programme Dealers

Barclays  
Goldman Sachs International  
ING  
Morgan Stanley

BofA Merrill Lynch  
HSBC  
Lloyds Bank Corporate Markets  
Société Générale Corporate & Investment  
Banking

## IMPORTANT NOTICES

This Prospectus comprises (i) a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended or superseded (including by Directive 2010/73/EU), to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the “**Prospectus Directive**”) and relevant implementing measures in the United Kingdom and for the purpose of giving information with regard to the Issuer and each of its subsidiary undertakings (together the “**Group**”) which, according to the particular nature of the Issuer and the Instruments to be issued by it, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the rights attaching to such Instruments (together, the “**Base Prospectus**”) and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Conduct Authority and Section 80(1) of the FSMA with regard to the Group (the “**Listing Particulars**”). For the avoidance of doubt, the Pricing Supplement forms part of the Listing Particulars and does not form part of the Base Prospectus.

The Issuer accepts responsibility for the information contained in the Base Prospectus, the Listing Particulars and the Final Terms. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) such information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Prospectus as completed by the final terms in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference” below).

This Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Tranche (as defined herein) of Instruments, should be read and construed together with the Final Terms (as defined herein).

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the issue or sale of the Instruments and, if given or made, any such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger (as defined in “Overview of the Programme”).

Neither the delivery of this Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall, under any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof, that there has been no change (or any event reasonably likely to involve a change) in the affairs of the Issuer since the date of this Prospectus or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change (or any event reasonably likely to involve any adverse change) in the financial position of the Issuer since the date of this Prospectus or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Instruments).

The distribution of this Prospectus and the offering, distribution or sale of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction.

Neither this Prospectus nor any Final Terms constitutes an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Instruments.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – If the Final Terms in respect of any Instruments includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Instruments are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II PRODUCT GOVERNANCE/TARGET MARKET** – The Final Terms in respect of any Instruments may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person subsequently offering, selling or recommending the Instruments (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Save for the Issuer, no other party has separately verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statement is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Trustee, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Instruments. Each potential purchaser of Instruments should determine for itself the relevance of the information contained in this Prospectus and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger or the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Instruments of any information coming to the attention of any of the Dealers, the Arranger or the Trustee.

Each potential investor in any Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Instruments and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Instruments, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Certain Instruments may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to local investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Instruments are legal investments for it, (ii) Instruments can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**Euro**" are to the currency of those member states of the European Union which are participating in European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, to "**Japanese yen**" are to the lawful currency of Japan, to "**£**" and "**Sterling**" are to the lawful currency of the United Kingdom, to "**U.S. dollars**", "**\$**" and "**U.S.\$**" are to the lawful currency of the United States of America, to "**Canadian dollars**" and "**CAD**" are to the lawful currency of Canada, to "**Australian dollars**" are to the lawful currency of Australia, to "**New Zealand dollars**" are to the lawful currency of New Zealand, to "**Swedish krona**" are to the lawful currency of Sweden, to "**Danish krone**" are to the lawful currency of Denmark, to "**Hong Kong dollars**" are to the lawful currency of Hong Kong and to "**Swiss francs**" are to the lawful currency of Switzerland.

In connection with the issue of any Tranche (as defined in "Overview of the Programme - Method of Issue"), the Dealer or Dealers (if any) may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) or

person(s) acting on behalf of any Stabilising Manager(s) in accordance with all applicable laws and rules.

**BENCHMARKS REGULATION** – Interest and/or other amounts payable under Floating Rate Instruments may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**"). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

## FORWARD-LOOKING STATEMENTS

This announcement contains certain statements that are neither reported financial results nor other historical information. For the purposes of securities to be listed or traded in the United States of America, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to the Issuer's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These forward-looking statements are not guarantees of the future performance of the Issuer and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors which are beyond the ability of the Issuer to control or estimate precisely, such as changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions as well as the results of climate change, or due to unauthorised access to or deliberate breaches of IT systems belonging to the Issuer, or otherwise; performance against regulatory targets and standards and against the Issuer's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes, restructuring and internal transformation projects; and customers and counterparties failing to perform their obligations to the Issuer. Other factors that could cause actual results to differ materially from those described in this announcement include fluctuations in exchange rates, interest rates and commodity price indices; restrictions in the borrowing and debt arrangements of the Issuer, funding costs and access to financing; regulatory requirements that enable the Issuer to maintain financial resources in certain parts of its business and restrictions on some subsidiaries' transactions, such as paying dividends, lending or levying charges; inflation; the delayed timing of recoveries and payments in regulated businesses of the Issuer; the funding requirements of any pension schemes and other post-retirement benefit schemes that the Issuer may have; the loss of key personnel or the ability to attract, train or retain qualified personnel and any disputes arising with employees or the breach of laws or regulations by employees of the Issuer; and incorrect or unforeseen assumptions or conclusions (including financial and tax impacts and other unanticipated effects) relating to business development activity, including assumptions in connection with joint ventures.

The effects of these factors are difficult to predict. For further details regarding these and other assumptions, risks and uncertainties please read the section entitled 'Risk Factors'. In addition, new factors emerge from time to time and the Issuer cannot assess the potential impact of any such factor on their activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Issuer undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this announcement. The content of any website references herein do not form part of this announcement.

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## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the audited National Grid North America Inc. and Subsidiaries Consolidated Financial Statements for the years ended 31 March 2018 and 31 March 2017, together with the audit report thereon, (ii) for the purposes of the financial results for 31 March 2017 only, the audited National Grid North America Inc. and Subsidiaries Consolidated Financial Statements for the years ended 31 March 2017 and 31 March 2016, together with the audit report thereon, (iii) the terms and conditions set out in pages 19 to 39 of the prospectus dated 20 December 2012 relating to the Programme, (iv) the terms and conditions set out in pages 20 to 40 of the Prospectus dated 20 December 2013 relating to the Programme, (v) the terms and conditions set out in pages 21 to 42 of the Prospectus dated 18 December 2014 relating to the Programme, (vi) the terms and conditions set out in pages 19 to 41 of the prospectus dated 9 December 2015 relating to the Programme and (vii) the terms and conditions set out in pages 19 to 40 of the prospectus dated 21 December 2017 relating to the Programme, each of which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Conduct Authority. Such documents shall be incorporated in and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Those parts of NGNA's annual reports for the financial years ended 31 March 2018, 31 March 2017 and 31 March 2016 and those parts of the prospectus dated 3 December 2007, 18 December 2009, 20 December 2010, 21 December 2011, 20 December 2012, 20 December 2013, 18 December 2014, 9 December 2015 and 21 December 2017 which are not specifically incorporated by reference in this Prospectus are either not relevant for the investor or are covered elsewhere in the Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained without charge from the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.



## **SUPPLEMENTAL PROSPECTUS**

In respect of any Instruments to be listed on the Market, if at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87G of the FSMA (**“Supplemental Prospectus”**), the Issuer will prepare and make available to the public an appropriate amendment or supplement to this Prospectus or a further prospectus which shall constitute a Supplemental Prospectus as required by the U.K. Listing Authority and Section 87G of the FSMA.

## **SUPPLEMENTARY LISTING PARTICULARS**

In respect of any PSM Instruments, if at any time the Issuer shall be required to prepare supplementary listing particulars pursuant to Section 81 of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus or further listing particulars which, in respect of any subsequent issue of PSM Instruments, shall constitute supplementary listing particulars as required by the U.K. Listing Authority and Section 81 of the FSMA.

## OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus.

<b>Issuer</b>	National Grid North America Inc.
<b>Issuer Legal Entity Identifier (LEI)</b>	5Q3U0WRKWZZGRMPYFT08
<b>Description</b>	Euro Medium Term Note Programme
<b>Size</b>	Up to Euro 8,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time.
<b>Arranger</b>	HSBC Bank plc
<b>Dealers</b>	Barclays Bank PLC Goldman Sachs International HSBC Bank plc ING Bank N.V. Lloyds Bank Corporate Markets plc Merrill Lynch International Morgan Stanley & Co. International plc Société Générale
	<p>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to the “<b>Permanent Dealers</b>” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “<b>Dealers</b>” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p>
<b>Trustee</b>	The Law Debenture Trust Corporation p.l.c.
<b>Issuing and Paying Agent</b>	The Bank of New York Mellon, London Branch
<b>Canadian Paying Agent</b>	BNY Trust Company of Canada
<b>Other Paying Agent</b>	KBL European Private Bankers S.A.
<b>Method of Issue</b>	<p>The Instruments will be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a “<b>Series</b>”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Instruments of each Series being intended to be interchangeable with all other Instruments of that Series. Each Series may be issued in tranches (each a “<b>Tranche</b>”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms document (the “<b>Final Terms</b>”) or, in the case of PSM Instruments, the Listing</p>

Particulars will be completed by the pricing supplement (the “**Pricing Supplement**”).

**Issue Price**

Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount.

**Form of Instruments**

The Instruments will be issued in registered form and represented by registered Certificates. One Certificate will be issued in respect of each Instrumentholder’s holding of Instruments of each Series. Certificates representing Instruments that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**” and will initially be represented by a Temporary Global Certificate. Beneficial interests in a Temporary Global Certificate will be exchangeable for a Permanent Global Certificate not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership.

**Clearing Systems**

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s).

**Initial Delivery of Instruments**

On or before the issue date for each Tranche, if the relevant Global Certificate is to be held under the NSS, the Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Certificate is not to be held under the NSS, the Global Certificate representing the Instruments may be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg. Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Instruments that are to be credited to one or more clearing systems on issue will be registered in the name of the relevant nominee or a common nominee for such clearing systems.

**Currencies**

Subject to compliance with all relevant laws, regulations and directives, Instruments may be issued in Euro, Japanese yen, Sterling, U.S. dollars, Canadian dollars, Australian dollars, New Zealand dollars, Swedish krona, Danish krone, Hong Kong dollars or Swiss francs or in other currencies if the Issuer and the relevant Dealer(s) so agree.

**Maturities**

Subject to compliance with all relevant laws, regulations and directives, the Instruments may have any maturity from one month to perpetuity.

Any Instruments having a maturity of less than one year from their date of issue must (a) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or

who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of Section 19 of the FSMA by the Issuer.

**Denominations**

Instruments will be denominated in the Specified Denominations set out in Part A of the relevant Final Terms, save that, unless otherwise permitted by then current laws and regulations, Instruments which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Fixed Rate Instruments**

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms and at maturity.

**Floating Rate Instruments**

Floating Rate Instruments will bear interest set separately for each Series as follows:

on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or

by reference to LIBOR, EURIBOR or CDOR as adjusted for any applicable margin. Interest periods will be selected by the Issuer prior to issue and specified in the relevant Final Terms. Floating Rate Instruments may also have a maximum interest rate, a minimum interest rate, or both.

**Benchmark Discontinuation**

On the occurrence of a Benchmark Event, the Issuer may (subject to certain conditions and following consultation with an Independent Adviser) determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread, if any, and any Benchmark Amendments in accordance with Condition 3.10.

**Zero Coupon Instruments**

Zero Coupon Instruments may be issued at their nominal amount or at a discount to it and will not bear interest.

**Interest Periods and Rates of Interest**

The length of the interest periods for the Instruments and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Instruments may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Instruments to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Redemption**

Unless permitted by then current laws and regulations, Instruments which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

<b>Optional Redemption</b>	<p>The Final Terms issued in respect of each issue of Instruments will state whether such Instruments may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Instrumentholders, and if so the terms applicable to such redemption.</p> <p>If specified in the applicable Final Terms, the Issuer will have the option to redeem or purchase the Instruments early at a Make-whole amount, or otherwise at any other amount specified, and at the time(s) specified in such Final Terms.</p> <p>If specified in the applicable Final Terms, the Issuer may elect to redeem all, but not some only, of the Instruments of any Series at their Residual Holding Redemption Amount at any time if the Residual Holding Percentage or more of the aggregate nominal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.</p>
<b>Status of Instruments</b>	<p>The Instruments will constitute unsubordinated and unsecured obligations of the Issuer, all as described in “Terms and Conditions of the Instruments — Status”.</p>
<b>Negative Pledge</b>	<p>The Instruments will have the benefit of a negative pledge as described in “Terms and Conditions of the Instruments — Status and Negative Pledge”.</p>
<b>Cross Acceleration</b>	<p>The Instruments will have the benefit of a cross acceleration provision as described in “Terms and Conditions of the Instruments — Events of Default”.</p>
<b>Other Events of Default</b>	<p>The other events of default under the Instruments are as specified below under “Terms and Conditions of the Instruments — Events of Default”.</p>
<b>Early Redemption</b>	<p>Except as provided in “Optional Redemption” and “Redemption” above, Instruments will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Instruments — Redemption, Purchase and Options”.</p>
<b>Withholding Tax</b>	<p>All payments of principal and interest in respect of the Instruments will be made free and clear of withholding taxes of the United States of America or any political sub-division of the United States of America or any authority in or of the United States of America having power to tax, unless compelled by law. In that event, the Issuer will, subject to certain exceptions, pay such additional amounts as will result in the payment to the Instrumentholders of the amounts which would otherwise have been received in respect of the Instruments had no withholding or deduction been made, all as described in “Terms and Conditions of the Instruments — Taxation”.</p>
<b>Governing Law</b>	<p>English</p>
<b>Listing</b>	<p>Each Series may be admitted to the Official List and admitted to trading on the Market or the PSM and/or admitted to listing,</p>

trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer(s).

## **Ratings**

The senior unsecured debt of NGNA has been rated 'Baa1' by Moody's Investors Service Ltd. ("**Moody's**") and 'BBB+' by Standard & Poor's Ratings Services LLC ("**S&P**"). Credit ratings included or referred to in this Prospectus have been issued by Moody's and S&P. Moody's is established in the European Union and is registered under the CRA Regulation. S&P is not established in the European Union and has not applied for registration under the CRA Regulation.

Tranches of Instruments (as defined in "Overview of the Programme") may be rated or unrated. Where a Tranche of Instruments is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## **Selling Restrictions**

United States, United Kingdom, Prohibition of Sales to EEA Retail Investors, Canada and Japan. See "Plan of Distribution".

Category 3 selling restrictions will apply to the Instruments for the purposes of Regulation S under the Securities Act.

## **Terms and Conditions**

The Terms and Conditions applicable to each Series will be as agreed between the Issuer, the Trustee and the relevant Dealer(s) or other subscriber at or prior to the time of issuance of such Series and will be specified in the relevant Final Terms.

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Instruments issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Instruments issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Instruments for other reasons. If this occurs, prospective investors may lose the value of their entire investment or part of it. Prospective investors should read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision in connection with the Instruments.*

### **Factors that may affect NGNA's ability to fulfil its obligations under Instruments issued under the Programme**

***NGNA is dependent upon receiving funds from its subsidiaries to fulfil its obligations under the Instruments issued under the Programme.***

NGNA's only business is to act as a vehicle for acquisition financing for its ultimate parent company, National Grid plc, in the United States through intercompany lending arrangements. NGNA's debt, primarily in the form of intercompany loans from National Grid plc and other UK affiliates, are paid back in a variety of ways including through dividend payments from NGNA's wholly owned subsidiary, National Grid USA ("**NGUSA**"), intercompany facilities with its other U.S. subsidiaries, and external borrowings. NGNA, as a holding company, does not conduct any business other than through its U.S. subsidiaries and is dependent on dividends or distributions from its U.S. subsidiaries to provide the funds necessary to meet its debt and contractual obligations. The U.S. subsidiaries' legal authority to pay dividends or make other distributions to NGNA is subject to regulation by the various state regulatory authorities in the US. No member of the Group is currently prohibited from paying a dividend.

NGNA is therefore dependent upon receipt of funds from its subsidiaries, including NGUSA, in order to fulfil its obligations under the Instruments. The obligations of NGNA under the Instruments are therefore structurally subordinated to any liabilities of NGNA's subsidiaries.

NGNA's wholly owned subsidiary, NGUSA, is an intermediate holding company which also has no business operations of its own and depends on the earnings and cash flow of, and dividends or distributions from, its subsidiaries. NGUSA in turn conducts all of its businesses through its subsidiaries, many of which are public utilities that are subject to regulation by federal and state regulatory agencies and other authorities. Each of NGUSA's public utility subsidiaries are subject to various dividend restrictions contained in federal and state regulatory approvals, financing instruments and organisational documents which, under certain circumstances, may limit the ability of these subsidiaries to pay a dividend. NGUSA's utility subsidiary's legal authority to operate as a public utility in the state in which it operates, including the legal authority to pay dividends or make other distributions to NGUSA (and, in turn, to NGNA), is subject to regulation by the state public utility commissions of the states in which it operates.

### **Regulatory Risks**

***The Group is subject to extensive and complex laws, regulations and legislation and changes in law or regulation and decisions by governmental bodies or regulators could***

***have a material adverse effect on the Group's business, financial position and results of operations.***

The Group is subject to extensive regulations and legislation enforced by various regulatory agencies. These regulatory agencies include the Federal Energy Regulatory Commission (the "FERC"), the federal Environmental Protection Agency (the "EPA") and the various federal, state local agencies including the various state public utility commissions. Changes in federal law, state or local law, decisions by governmental bodies or regulatory policy regulators in the states and jurisdictions in which the Group operates could adversely affect its business, financial position and results of operations. Regulations affect almost every aspect of the Group's business and limit its ability to independently make and implement management decisions regarding business combinations, disposing of operating assets, setting rates charged to customers, issuing debt and engaging in transactions between the Group and its subsidiaries and affiliates. Moreover, regulatory decisions and legislation also affect matters unique to the Group's businesses, including for example whether franchises to operate are granted or renewed, decoupling of energy usage and revenue, timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, and other decisions relating to the impact of general economic conditions on the Group, its markets and customers, implications of climate change and remuneration for stranded assets. Regulations and legislation are subject to ongoing changes and policy initiatives, and NGNA cannot predict the future course of regulations or legislation and their respective ultimate effect. Such changes could materially impact the Group's businesses, financial position and results of operations.

A significant portion of the Group's revenues and its opportunity to recover costs in its utility businesses is directly dependent on rates established by federal or state regulatory authorities, and any change in these rates and regulatory structure could significantly impact the Group's financial results. Increases in utility costs, not otherwise offset by increases in revenues or reductions in other expenses, could have an adverse effect on earnings due to the time lag associated with obtaining regulatory approval to recover such increased costs and expenses in rates. Regulatory decisions concerning the level of permitted revenues for the Group's businesses and proposed business development activities could have an adverse impact on its results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

During November and December 2012, the Group launched a U.S. foundation programme relating to the development and implementation of a new enterprise resources planning system. The new system replaced two legacy systems and a number of ancillary systems used by the Group. The new system supports business process for finance, human resources, supply chain and certain elements of the Group's operational systems such as fleet and inventory management for all of the Group. In the implementation of this programme, the Group experienced operational difficulties and other system conversion challenges.

The Group completed the final stabilization upgrades to the new financial system in 2015, remedying errors and addressing the unsatisfactory implementation. See "*Risk Factors – Operational Risk – Material weaknesses in internal controls over financial reporting*" for further information. As a result of these deficiencies, NGNA may be unable to provide accurate and timely regulatory reporting for its U.S. businesses, which may include the provision of U.S. subsidiary financial reports. This could result in regulatory fines, penalties, and other sanctions which may adversely impact the Group's operations, their reputation and its relationship with relevant U.S. regulators and other stakeholders.

***Law and Regulation***

***Breaches of, or changes in, environmental, climate change or health and safety laws or regulations could expose the Group to increased costs, claims for financial compensation***



***and adverse regulatory consequences, as well as adversely affecting the Group's business, financial position, results of operations and damaging the reputation of the Group.***

The Group's activities are potentially harmful, such as the activities that arise in connection with its business including generation transmission and distribution of electricity and the storage, transmission and distribution of gas and as such are subject to numerous environmental, health and safety regulations that affect many aspects of its operation. In addition, electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by products and the Group is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous wastes and materials. In addition, certain activities of electricity and gas utilities may not currently be subject to environmental, health or safety regulations because such activities are not currently regarded or proven to have adverse effects but which may in the future be subject to regulation or to more extensive regulation, for example, the effects of electric and magnetic fields and greenhouse gas emissions. Compliance with current and future regulations, including regulation in relation to climate change, can require significant capital and operating expenditures, including expenditures for new equipment, inspection and clean-up costs and damages arising out of contaminated properties. The Group commits significant resources and expenditures toward complying with these laws and regulations and meeting the Group's obligations under existing laws and regulations and in some cases negotiated settlements. If additional requirements are imposed on the Group's ability to recover such costs and expenses under relevant regulatory framework changes, this could have a material adverse impact on the Group's businesses, reputation, results of operation and financial position.

The Group may not be able to obtain or maintain all required environmental regulatory approvals for its facilities. As a result, some facilities may be required to shut down or alter their operations. If the Group's conduct and activities fail to comply with any applicable environmental requirements, the Group may be subject to penalties and fines or other sanctions. In addition, the Group could suffer damage to its reputation.

Environmental regulations also impose obligations to remediate contaminated properties (for example manufactured gas plant ("MGP") sites) or to require payment for the cost of such remediation, often from parties that did not actually cause the contamination, including current and prior owners and operators of property. The Group generally is responsible for on-site liabilities, and in some cases off-site liabilities, associated with the environmental condition of its current and former assets, regardless of when the liabilities arose and when they are discovered. In connection with acquisitions, the Group may obtain or require indemnification against some environmental liabilities. If the Group incurs a material liability, or the other party to a transaction fails to meet its indemnification obligations, the Group could suffer material losses. In addition, future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities that may be material. While some of the Group's businesses have regulatory rate plans or similar type cost recovery mechanisms, generally allowing for recovery of the costs of investigation and remediation of contaminated sites (i.e. state site investigation and remediation ("SIR") programmes and the FERC contract termination charge), the current cost recovery mechanisms may change in the future. If the cost recovery mechanisms change in the future, or if additional environmental matters arise in the future at the Group's currently or historically owned facilities, at sites the Group may acquire in the future or at third-party waste disposal sites, costs associated with investigating and remedying these sites could have a material adverse effect on the Group's results of operations, cash flows and financial condition.

## **Operational Risk**

***Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both the Group's financial position and its reputation.***

The Group may suffer a major network failure or interruption, or may not be able to carry out non-network operations. Operational performance could be materially adversely affected by a failure to

maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. This could cause the Group to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of regulatory requirements or contractual obligations, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming the Group's reputation. The operation of complex electricity transmission, natural gas transportation and electricity and gas distribution systems and generation facilities involve many operating uncertainties and events beyond the Group's control such as the impact of weather (including as a result of climate change) unlawful or intentional acts of third parties or force majeure. Weather conditions, including prolonged periods of adverse weather or "adverse weather conditions", can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and, potentially, business performance. Catastrophic force majeure type events such as severe storms, fires, earthquakes, or intentional acts such as wars, insurrections, strikes, lockouts, terrorist attacks, breaches of cyber security, sabotage or vandalism may also physically damage the Group's assets. The occurrence of any one of these events could cause a breakdown or failure of transmission and distribution lines or other equipment or processes, unscheduled facility outages, interruption or unavailability of critical equipment, materials and supplies and reduced levels of capacity or efficiency which otherwise may significantly affect corporate activities and as a consequence have an adverse impact on the Group's results of operations, financial condition and its reputation. In addition, the Group's insurance may not adequately provide coverage for certain hazards, such as unexpected outages at critical facilities, damage to pipelines, equipment, properties and people. The occurrence of any of these risks or other operational risks could cause the Group to fail to meet the various standards of service requirements expected of utilities as established by the various state public utility commissions and/or significantly reduce or eliminate the Group's revenues or significantly increase its expenses due to the cost of repairing damage to the Group's operating facilities which could be substantial. The occurrence or risk of occurrence of future terrorist attacks or related acts of war or violence may lead to increased political, economic and financial market instability and volatility in prices which could materially adversely affect the Group in ways it cannot predict at this time. A lower level of economic activity for these or other reasons could result in a decline in energy consumption, which could adversely affect the Group's net revenues.

In addition, the Group could be subject to regulatory penalties if it fails to meet certain service quality standards resulting from, for example, an interruption of service. Any reduction of revenues or increase in expenses resulting from the risks described above could adversely affect the Group's business, results of operations and reputation.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that NGNA will be unable to comply with its obligations as a company with securities admitted to the Official List.

***NGNA's results of operations depend on a number of factors relating to business and operational performance including performance against regulatory targets, recovery of incurred expenditure and the delivery of anticipated cost and efficiency savings from business development activity.***

Earnings maintenance and growth from NGNA's businesses will be affected by the Group's ability to meet or exceed efficiency and integration targets and service quality standards set by or agreed with the Group's regulators under the various regulatory rate plans affecting the types of business in which the Group operates. Levels of earnings also depend on meeting service quality standards set by U.S. regulators. In addition, from time to time, the Group publishes cost and efficiency savings targets for its businesses. To meet these cost and efficiency savings targets and standards, the Group must continue to improve operational performance, service reliability and customer service. If the Group does not meet these targets and standards and/or does not complete implementation of reorganisation as envisaged, the Group's business may be adversely affected and its performance, results of operations and its reputation may be harmed.

The Group previously completed reorganising its U.S. operations from a global business model to a regional model, because customers and regulators were looking for something more closely aligned to their local needs and achieving greater efficiencies and cost savings. If the regional model does not consistently deliver greater customer alignment, efficiencies and cost savings and the Group is not able to effectively manage its operating model to deliver success under its existing rate plans, the Group may not achieve the expected benefits, the Group's business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed and/or the Group may be in breach of regulatory or contractual obligations.

Business development activities, and the delivery of growth ambitions, including acquisitions, disposals, joint ventures, partnering and organic investment opportunities (including organic investments made as a result of changes to the energy mix) are subject to a wide range of both external uncertainties and internal uncertainties which entail a number of risks including decisions based upon incorrect assumptions or conclusions, inability to integrate acquired businesses effectively with existing operations, failure to realise planned levels of synergy and efficiency savings from acquisitions, unanticipated operational, financial and tax impacts (including unanticipated costs) and other unanticipated effects. The Group may be liable for the past acts and errors and omissions of companies or businesses acquired which may be unforeseen or greater than anticipated at the time of the acquisition. Under the Group's state regulatory rate plans earnings, maintenance and growth from the Group's regulated gas and electricity businesses will be affected by its ability to realise and deliver expected integration and operational efficiency synergies from completed acquisitions as set by or agreed with its state and federal regulators. Many of these risks and uncertainties are similar to those that are faced by the Group's pre-existing businesses; however, there are some that are not. The occurrence of any such event could affect the Group's ability to realise synergies required under its regulatory rate plans which could have a material adverse impact on the Group's results of operations or financial condition under its regulatory rate plans.

***NGNA's results of operations could be affected by inflation.***

NGNA's income under the Group's businesses' rate plans in the various states in which it operates are not typically linked to inflation. In periods of inflation in the United States, NGNA's operating costs may increase by more than its revenues. Such increased costs may materially adversely affect NGNA's results of operations. In addition, even where increased costs are recoverable under NGNA's various regulatory rate plans of its various businesses that provide for various tracking and true-up mechanisms for cost recovery, there may be a delay (i.e. regulatory lag) in NGNA's ability to recover its increased costs.

***The Group's risk mitigation techniques such as hedging and current regulatory arrangements may not adequately provide protection.***

To the extent the Group has unhedged positions or its hedging strategies do not work as planned, fluctuating commodity prices could cause the Group's sales and net income to be volatile and could potentially impact the Group's business. To mitigate the Group's financial exposure related to commodity price fluctuations, the Group routinely enters into various contracts to hedge a portion of purchase and sale commitments, weather fluctuations, electricity sales, gas supply and other commodities. In addition, the Group's current regulatory arrangements provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if the Group's regulators were to restrict this ability, it could have an adverse effect on the Group's operating results. Moreover, the Group does not always cover the entire exposure of its assets or its positions to market price volatility and the coverage will vary over time.

***The Group's reputation and long-term financial condition may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside the Group's control.***

The Group's energy delivery businesses are responsible for arranging for the transportation and distribution of available electricity and gas to its customers. The development of additional gas reserves requires significant capital expenditure by others for exploring, drilling and installing production, gathering, storage, transportation and other facilities that permit gas to be produced and delivered to the Group's distribution systems. Low prices for gas, regulatory restrictions, or the lack of available capital for these projects could adversely affect the development of additional gas reserves and may also result in potential write-downs of the Group's investment in gas properties. Additional gas reserves may not be developed in sufficient amounts to fill the capacities of the Group's distribution systems, thus limiting the Group's prospects for long-term growth. Such supply issues could hinder the Group's ability to successfully contract for gas and electricity supplies required to meet the needs of its customers. Significant downward revisions in the Group's estimated proved gas reserves may further impact the long-term financial health of the Group. In addition, the Group consults with and provides information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply the Group's role is to manage the relevant distribution and transportation network safely, which in extreme circumstances may require the Group to disconnect customers which may damage the Group's reputation.

***New or revised accounting standards, rules and interpretations.***

The implementation of new accounting standards or changes in accounting standards or Generally Accepted Accounting Principles (GAAP) which may require adjustments to financial statements, could have significant adverse effects on NGNA's reported financial results.

***NGNA's operating results may fluctuate on a seasonal and quarterly basis.***

NGNA's public utility subsidiaries in the Group are seasonal businesses and are subject to weather conditions and related market issues. In particular, the Group receives most of its gas distribution revenues in the third and fourth quarters of its fiscal year, when demand for gas increases due to colder weather conditions. As a result, the Group is subject to seasonal variations in working capital because it purchases gas supplies for storage in the first and second quarters and must finance these purchases. Accordingly, NGNA's results of operations for its gas distribution business fluctuate substantially on a seasonal basis. In addition, portions of NGNA's electricity businesses are seasonal and subject to weather and related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling degree days, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on NGNA's results of operations for these businesses; both gas and electric.

***Customers and counterparties to the Group's transactions may fail to perform their obligations, which could harm NGNA's results of operations and loss of substantial revenue if discontinued.***

NGNA's subsidiary operations are exposed to the risk that customers and counterparties to the Group's transactions that owe money, commodities or supplies to the Group will not perform their obligations. For example, the Group's downstate New York subsidiaries derive a substantial portion of revenues from the supply of wholesale generation capacity and energy from one customer, the Long Island Power Authority ("LIPA") under a power purchase agreement that was renewed in May 2013. LIPA in turn provides retail electricity to communities and businesses on Long Island. Should the counterparties to certain bilateral arrangements with the Group fail to perform, the Group might be forced to enter into alternative hedging arrangements or honour its underlying commitment at then-current market prices that may exceed the Group's contractual prices. In such event, the Group might incur additional losses to the extent of amounts, if any, already paid to counterparties. This risk is most significant where the Group's energy delivery businesses have concentrations of receivables from gas and electric utilities and their affiliates, as well as industrial customers, energy marketers, customers and other purchasers

that are unable to pay as a result of increasing commodity costs throughout the northeast of the United States.

***Prolonged disruptions of the Group business operations due to work stoppages or strikes could adversely affect its business.***

Most of the Group's operations workforces are covered by various collective bargaining agreements, which affect its labour costs. The Group believes that it has satisfactory relations with the various unions. However, the Group cannot assure that it will reach a new agreement with the union on satisfactory terms when the collective bargaining agreement expires. Nor can the Group assure investors that it would reach a new agreement without work stoppages, strikes or similar industrial actions. If industrial actions substantially obstructed any of the Group's operations for an extended period, the Group's business and results of operations would suffer material harm. Disruptions of the business operations, strikes or similar measures at customer's or supplier's sites could also have a material adverse impact on the Group's business and results of operations.

***NGNA's financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings, effective tax rates and volatility in the global credit markets.***

NGNA is subject to certain covenants and restrictions in relation to its debt securities and its bank lending facilities and those of its subsidiaries. NGNA is also subject to restrictions on financing that have been imposed by state and federal regulators. These restrictions may hinder it in servicing the financial requirements of its current businesses or the financing of newly acquired or developing businesses. For the portion of NGNA's debt or the debt of its subsidiaries, that is rated by credit rating agencies, it can provide no assurances that the ratings or outlook on such debt securities will not be reduced or otherwise be negatively changed. Changes to these ratings or outlook may affect both NGNA's and its subsidiaries' borrowing capacity and the cost of those borrowings. The effective rate of tax NGNA pays may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate.

NGNA's businesses are partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from NGNA's assets. Accordingly, NGNA's businesses may rely on access to short-term commercial paper and money markets as a source of short-term financing and longer-term bank and capital markets as a source of long-term financing. The global financial markets are currently experiencing extreme volatility including potential uncertainties surrounding the United Kingdom's anticipated exit from the European Union (i.e. Brexit) resulting from its 23 June 2016 vote in a national referendum to withdraw from the European Union. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting pressure and, in certain cases, placing downward pressure on share prices and credit availability for companies. If NGNA's businesses are not able to access capital at competitive rates, their ability to finance their operations and implement NGNA's strategy will be adversely affected.

During November and December 2012, the Group launched a U.S. foundation programme relating to the development and implementation of a new enterprise resources planning system. The new system replaced two legacy systems and a number of ancillary systems used by the Group. The new system supports business processes for finance, human resources, supply chain and certain elements of the Group's operational systems such as fleet and inventory management for all of the Group. In the implementation of this programme, the Group experienced operational difficulties and other system conversion challenges that affected payroll processing and resulted in delays in the Group's financial reporting.

The Group completed the final stabilization upgrades to the new financial system, remedying errors and addressing the unsatisfactory implementation. See "*Risk Factors – Operational Risk – Material weaknesses in internal controls over financial reporting*" for further information.

NGNA's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing U.S. entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Group's debt and may restrict NGNA's ability to draw upon its facilities or access the capital markets. The impact of any of these events could adversely impact the results of operations of the Group.

***Material weaknesses in internal controls over financial reporting.***

NGNA shares financial accounting and reporting systems and has common processes and procedures with its affiliated U.S. companies. In 2013, NGNA management determined that material weaknesses in internal control over financial reporting ("ICFR") existed. As of 31 March 2017, material weaknesses continued to exist which contributed to errors in our financial reporting and which resulted in revisions to previously issued financial statements. As of 31 March 2018, NGNA management concluded, and the current auditors concurred, that the previously identified material weaknesses had been remediated.

NGNA management continues to evaluate ICFR but there is no guarantee that additional material weaknesses or errors in financial reporting may not occur in the future.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that NGNA will be unable to comply with its obligations as a company with securities admitted to the Official List.

**Factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme**

***Risks related to the structure of a particular issue of Instruments***

A range of Instruments may be issued under the Programme. Certain of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

***Instruments subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of Instruments. During any period when the Issuer may elect to redeem Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Instruments when its cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Fixed/Floating Rate Instruments***

Fixed/Floating Rate Instruments may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Instruments since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Instruments may be less favourable than the prevailing spreads on comparable Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the prevailing rates on its Instruments.

### *Floating Rate Instruments – Regulatory Reforms to Benchmarks*

Reference rates and indices, including interest rate benchmarks such as the LIBOR, EURIBOR and CDOR (each as provided for in the Terms and Conditions of the Instruments), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“**Benchmarks**”) have, in recent years, been the subject of national and international political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, in particular pursuant to the Benchmarks Regulation, which was published in the Official Journal of the EU on 29 June 2016 and has applied since 1 January 2018, with further changes anticipated. For example, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted. Similar regulatory developments in relation to other Benchmarks may lead to similar consequences for such other Benchmarks. Such regulatory reform could increase the costs and risks of administering or otherwise participating in the setting of a Benchmark, such that market participants are discouraged from continuing to administer or contribute to a Benchmark. These reforms and changes may also cause a Benchmark to perform differently than it has done in the past, to be discontinued or have other consequences which cannot be predicted.

Accordingly, in respect of an Instrument referencing a relevant Benchmark, such reforms and changes in applicable regulation could have a material adverse effect on the market value of and return on such an Instrument (including potential rates of interest thereon).

### *Floating Rate Instruments – Benchmark Discontinuation*

Where Screen Rate Determination is specified as the manner in which the Rate of Interest (as defined in Condition 3.8) in respect of Floating Rate Instruments is to be determined, the Terms and Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (as defined in Condition 3.9) (or its successor or replacement). In circumstances where such Original Reference Rate (as defined in Condition 3.10.7) is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Terms and Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date (as defined in Condition 3.8) before the Original Reference Rate was discontinued. Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Instruments.

If a Benchmark Event (as defined in Condition 3.10) (which, amongst other events, includes the permanent discontinuation of an Original Reference Rate) occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser (as defined in Condition 3.10). After consulting with the Independent Adviser, the Issuer shall endeavour to determine a Successor Rate or, failing which, an Alternative Rate (each as defined in Condition 3.10) to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest will result in Instruments linked to or referencing the Original Reference Rate performing differently (which may

include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Issuer, the Terms and Conditions provide that the Issuer may vary the Terms and Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Instrumentholders.

If a Successor Rate or Alternative Rate is determined by the Issuer, the Terms and Conditions also provide that an Adjustment Spread (as defined in Condition 3.10) may be determined by the Issuer and applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Instrumentholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Instrumentholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) will still result in Instruments linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form.

The Issuer may also not be able to determine a Successor Rate or Alternative Rate in accordance with the Terms and Conditions of the Instruments.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or is unable to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period (as defined in Condition 3.8) will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or has failed to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event will result in Instruments linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, fails to determine a Successor Rate or Alternative Rate for the life of the relevant Instruments, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Instruments, in effect, becoming fixed rate Instruments.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Instruments is to be determined, the Terms and Conditions provide that the Rate of Interest in respect of the Instruments shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the



relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Instruments.

#### *Instruments issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### **Risks related to Instruments generally**

Set out below is a brief description of material risks relating to the Instruments generally:

##### *Modification, waiver and substitution*

The Terms and Conditions of the Instruments contain provisions for calling meetings of Instrumentholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Instrumentholders including Instrumentholders who did not attend and vote at the relevant meeting and Instrumentholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Instruments also provide that the Trustee may, without the consent of Instrumentholders, agree to (a) any modification of any of the provisions of the Trust Deed (as defined herein) that is of a formal, minor or technical nature or is made to correct a manifest error, (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Instrumentholders or (c) the substitution of another company as principal debtor under any Instruments in place of the Issuer, in the circumstances described in Condition 10.

##### *Change of law*

The Terms and Conditions of the Instruments are based on English law in effect as at the date of issue of the relevant Instruments. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Instruments and any such change could materially adversely impact the value of any investments affected by it.

#### **Risks related to the market generally**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

##### *The secondary market generally*

Instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Instruments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Instruments that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Instruments generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Instruments.

##### *The Clearing Systems*

The Global Certificates may be held by or on behalf of Euroclear Bank and Clearstream, Luxembourg or such other clearing system as has been agreed by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s) and consequently investors will have to rely on their procedures for

transfer, payment and communication with the Issuer. References to Euroclear and Clearstream, Luxembourg include such other clearing systems.

Instruments may be represented by one or more Global Certificates. Such Global Certificates may be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg, or, in the case of an instrument held under the NSS, to the Common Safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the interests in the Global Certificates. While the Instruments are represented by one or more Global Certificates, investors will be able to trade their interests only through Euroclear or Clearstream, Luxembourg.

While Instruments are represented by one or more Global Certificates, the Issuer will discharge its payment obligations under such Instruments by making payments to the Common Depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in Instruments represented by a Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Instruments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of Global Certificates.

Holders of Instruments represented by a Global Certificate will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Instruments in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Instruments, (ii) the Investor's Currency equivalent value of the principal payable on the Instruments and (iii) the Investor's Currency equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Instruments. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Instrument this will adversely affect the value of Fixed Rate Instruments.

#### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Issuer or an issue of Instruments. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such a rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-

EU rating agency is certified in accordance with the CRA Regulation (and such endorsement, action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to credit rating agencies and ratings will be disclosed in the relevant Final Terms.

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms shall be endorsed on the Certificates relating to the Instruments. All capitalised terms which are not defined in these terms and conditions will have the meanings given to them in the Trust Deed or Part A of the relevant Final Terms. Those definitions will be endorsed on the Certificates. References in these terms and conditions to “**Instruments**” (as defined below) are to the Instruments of one Series only of the Issuer, not to all Instruments that may be issued under the Programme. In the case of PSM Instruments issued under the Programme, references to the Final Terms in these Conditions shall be construed as references to the Pricing Supplement.*

National Grid North America Inc. (“**NGNA**” and, the “**Issuer**”) has established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of up to Euro 8,000,000,000 in aggregate principal amount of debt instruments (the “**Instruments**”). The Instruments are constituted by an amended and restated Trust Deed (as amended or supplemented from time to time, the “**Trust Deed**”) dated 21 December 2018 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Instrumentholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed which includes the form of the Certificates. An amended and restated Agency Agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) dated 9 December 2015 has been entered into in relation to the Instruments between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent, The Bank of New York Mellon (Luxembourg) S.A. as the registrar and the other agent(s) named in it. The issuing and paying agent, the paying agent(s), the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection by prior appointment during usual business hours at the registered office of the Trustee (as at 21 December 2018 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents.

### 1 Form, Denomination and Title

The Instruments are issued in registered form in the Specified Denomination(s) specified in the relevant Final Terms and are serially numbered. Instruments of one Specified Denomination are not exchangeable for Instruments of another Specified Denomination.

This Instrument is a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, or a combination of any of the preceding kinds of Instruments, depending upon the Interest and Redemption Basis specified in the relevant Final Terms.

Instruments are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 17(a), each Certificate shall represent the entire holding of Instruments by the same holder. Certificates will initially be represented by a Temporary Global Certificate. Beneficial interests in a Temporary Global Certificate will be exchangeable for a Permanent Global Certificate not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership.

Title to the Instruments shall pass by registration in the register (the “**Register**”) that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the Issuer and the Paying Agents shall be entitled to treat the holder (as defined below) of any Instrument as the absolute owner of that Instrument, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and shall not be required to obtain any proof of ownership as to the identity of the holder.

In these Conditions, “**Instrumentholder**” and “**holder**” means the person in whose name an Instrument is registered and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to the Instruments.

## 2 Status and Negative Pledge

### 2.1 Status

The Instruments constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves. The payment obligations of the Issuer under the Instruments shall, subject to such exceptions as are from time to time applicable under the laws of England, rank equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Issuer.

### 2.2 Negative Pledge

So long as any Instrument remains outstanding (as defined in the Trust Deed) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“**Security**”) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer’s obligations under the Instruments and the Trust Deed (a) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Instrumentholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Instrumentholders.

For the purposes of these Conditions, “**Relevant Indebtedness**” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are for the time being, or are intended, with the agreement of the Issuer, to be quoted, listed or ordinarily dealt in on any stock exchange.

## 3 Interest

### 3.1 Interest on Fixed Rate Instruments

Each Fixed Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.6.

If a Fixed Coupon Amount or a Broken Amount is specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount, or, if applicable, the Broken Amount so specified and in the case of a Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Final Terms.

### 3.2 Interest on Floating Rate Instruments

#### 3.2.1 Interest Payment Dates

Each Floating Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.6. Such Interest Payment Date(s) is/are either specified in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are

specified in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown on this Instrument as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

### 3.2.2 Business Day Convention

If any date which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is (a) the Floating Rate Convention, such date shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (b) the Following Business Day Convention, such date shall be postponed to the next day which is a Business Day, (c) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in that event such date shall be brought forward to the immediately preceding Business Day or (d) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

### 3.2.3 Rate of Interest for Floating Rate Instruments

The Rate of Interest in respect of Floating Rate Instruments for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified on this Instrument.

(a) ISDA Determination for Floating Rate Instruments: Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (a), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate which would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option is as specified in the relevant Final Terms;
- (ii) the Designated Maturity is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (a), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(b) Screen Rate Determination for Floating Rate Instruments:

- (i) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
  - (x) the offered quotation; or
  - (y) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or CDOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) or 10:00 a.m. Toronto time, in the case of CDOR, on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (ii) if the Relevant Screen Page is not available or if, sub-paragraph (i)(x) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (i)(y) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is CDOR, the principal Toronto office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is CDOR, at approximately 10:00 a.m. (Toronto time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (iii) if paragraph (ii) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, (A) if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time),

on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or (B) if the Reference Rate is CDOR, the arithmetic mean of the bid rates as communicated to (and at the request of) the Calculation Agent by Schedule I chartered banks in Toronto, for Canadian Dollar bankers acceptances for a period of the applicable Interest Period in an amount representative for a single transaction in the relevant market at the relevant time accepted by those banks as of 10:00 a.m. (Toronto time), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) Linear Interpolation: Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Issuer shall determine, or shall appoint an agent to determine, such rate at such time and by reference to such sources as it determines appropriate, acting in good faith and in a commercially reasonable manner.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate and (b) in relation to ISDA Determination, the Designated Maturity.

### **3.3 Zero Coupon Instruments**

Where an Instrument, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Instrument. As from the Maturity Date, the Rate of Interest for any overdue principal of such an Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 4.4.1(b)).

### **3.4 Accrual of Interest**

Interest shall cease to accrue on each Instrument on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall



continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 3 to the Relevant Date (as defined in Condition 6).

### **3.5 Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding**

- (i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 3.2.3 above, by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest, or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency which is available as legal tender in the country of such currency.

### **3.6 Calculations**

The amount of interest payable per Calculation Amount in respect of any Instrument for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount as specified in the relevant Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Instrument for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

### **3.7 Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts**

The Calculation Agent shall as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Redemption Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, or any Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Instrumentholders, any other Calculation Agent appointed in respect of the Instruments that is to make a further calculation upon receipt of such information and, if the Instruments are listed on a stock exchange and the rules of such exchange so require,

such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 3.2.3, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Instruments become due and payable under Condition 8, the accrued interest and the Rate of Interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

### 3.8 Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (a) in the case of a currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency (which in the case of Canadian dollars is Toronto, and where the Reference Rate is LIBOR, the financial centres shall be London and Toronto); and/or
- (b) in the case of Euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (c) in the case of a currency and/or one or more Business Centres as specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Instrument for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (a) if “**Actual/Actual**” or “**Actual/Actual-ISDA**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;
- (c) if “**Actual/360**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;
- (d) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (e) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (f) if “**30E/360 (ISDA)**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30;

- (g) if “**Actual/Actual-ICMA**” is specified in the relevant Final Terms:
- (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the actual number of days in the Calculation Period divided by the product of (x) the actual number of days in such Determination Period and (y) the number of Determination Periods in any year; and
  - (ii) if the Calculation Period is longer than one Determination Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (a) the actual number of days in such Determination Period and (b) the number of Determination Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (a) the actual number of days in such Determination Period and (b) the number of Determination Periods in any year,

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date; and

- (h) if “**Actual/Actual Canadian Compound Method**” is specified in the relevant Final Terms, it means, in respect of an Interest Amount other than a Fixed Coupon Amount or Broken Amount, the actual number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by 365.

“**Euro-zone**” means the region comprising of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community as amended.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (a) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Instruments, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (b) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

**“Interest Commencement Date”** means the Issue Date or such other date as may be specified in the relevant Final Terms.

**“Interest Determination Date”** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (a) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (b) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro or (c) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro.

**“Interest Payment Date”** means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms, as the same may be adjusted in accordance with the relevant Business Day Convention.

**“Interest Period”** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date unless otherwise specified in the applicable Final Terms.

**“Interest Period Date”** means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

**“ISDA Definitions”** means the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc.

**“Rate of Interest”** means the rate of interest payable from time to time in respect of this Instrument and that is either specified on, or calculated in accordance with the provisions of, the relevant Final Terms.

**“Redemption Amount”** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of the relevant Final Terms.

**“Reference Banks”** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and in the case of a determination of CDOR, four major Canadian Schedule I chartered banks, in each case selected by the Calculation Agent.

**“Reference Rate”** means the rate specified as such in the relevant Final Terms.

**“Relevant Screen Page”** means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms.

**“Specified Currency”** means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Instruments are denominated.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor to it.

### **3.9 Calculation Agent**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Instrument is outstanding. Where more than one Calculation Agent is appointed in respect of the Instruments, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) which is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as specified in this paragraph.

### **3.10 Benchmark Discontinuation**

This Condition 3.10 applies only where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined.

#### **3.10.1 Independent Adviser**

Notwithstanding Conditions 3.2.3(b)(ii) and 3.2.3(b)(iii), if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3.10.2) and, in either case, an Adjustment Spread if any (in accordance with Condition 3.10.3) and any Benchmark Amendments (in accordance with Condition 3.10.4).

An Independent Adviser appointed pursuant to this Condition 3.10 shall act in good faith and in a commercially reasonable manner as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Trustee, the Paying Agents, or the Instrumentholders for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 3.10.

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 3.10.1 prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Instruments in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that

last preceding Interest Accrual Period. For the avoidance of doubt, this sub-paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 3.10.

### **3.10.2 Successor Rate or Alternative Rate**

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines that:

- (a) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 3.10.3) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Instruments (subject to the operation of this Condition 3.10); or
- (b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 3.10.3) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Instruments (subject to the operation of this Condition 3.10).

### **3.10.3 Adjustment Spread**

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

### **3.10.4 Benchmark Amendments**

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 3.10 and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that amendments to these Terms and Conditions, the Agency Agreement and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3.10.5, without any requirement for the consent or approval of Instrumentholders, vary these Conditions, the Agency Agreement and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two directors of the Issuer pursuant to Condition 3.10.5, the Trustee shall (at the expense and direction of the Issuer), without any requirement for the consent or approval of the Instrumentholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these Conditions and/or any documents to which it is a party (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 3.10.4, the Issuer shall comply with the rules of any stock exchange on which the Instruments are for the time being listed or admitted to trading.

### **3.10.5 Notices, etc.**

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3.10 will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 13, the Instrumentholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer:

- (a) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) where applicable, any Adjustment Spread and (iv) the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 3.10; and
- (b) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Instrumentholders.

### **3.10.6 Survival of Original Reference Rate**

Without prejudice to the obligations of the Issuer under Condition 3.10.1, 3.10.2, 3.10.3 and 3.10.4, the Original Reference Rate and the fallback provisions provided for in Condition 3.2.3 will continue to apply unless and until a Benchmark Event has occurred and the relevant Paying Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 3.10.5.

### **3.10.7 Definitions**

As used in this Condition 3.10:

**"Adjustment Spread"** means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Instrumentholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any



Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)

- (b) the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged)
- (c) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

**“Alternative Rate”** means an alternative benchmark or screen rate which the Issuer following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines in accordance with Condition 3.10.2 has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the same Specified Currency as the Instruments.

**“Benchmark Amendments”** has the meaning given to it in Condition 3.10.4.

**“Benchmark Event”** means:

- (1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (2) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (3) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Instruments, in each case within the following six months; or
- (5) it has or will become unlawful for any Paying Agent, Calculation Agent, Trustee (or agent of a Trustee) or the Issuer to calculate any payments due to be made to any Instrumentholders using the Original Reference Rate.

**“Independent Adviser”** means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense under Condition 3.10.1 and notified in writing to the Trustee.

**“Original Reference Rate”** means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Instruments.

**“Relevant Nominating Body”** means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“**Successor Rate**” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

## **4 Redemption, Purchase and Options**

### **4.1 Final Redemption**

Unless previously redeemed, purchased and cancelled as provided below, this Instrument will be redeemed at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) on the Maturity Date specified in the relevant Final Terms.

### **4.2 Redemption for Taxation Reasons**

If, on the occasion of the next payment in respect of the Instruments the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that it would be unable to make such payment without having to pay additional amounts as described in Condition 6, and such requirement to pay such additional amounts arises by reason of a change in the laws of the United States of America or any political sub-division of the United States of America or any authority in or of the United States of America having power to tax or in the interpretation or application of the laws of the United States of America or any political sub-division of the United States of America or any authority in or of the United States of America having power to tax or in any applicable double taxation treaty or convention, which change becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Instruments, and such requirement cannot be avoided by the Issuer taking reasonable measures (such measures not involving any material additional payments by, or expense for, the Issuer), the Issuer may, at its option, at any time, having given not less than 30 nor more than 45 days’ notice to the Instrumentholders in accordance with Condition 13, redeem all, but not some only, of the Instruments at their Early Redemption Amount together with interest accrued to the date of redemption provided that the date fixed for redemption shall not be earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or make such withholding or deduction, as the case may be, were a payment in respect of the Instruments then due. Prior to the publication of any notice of redemption pursuant to this Condition 4.2, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the requirement referred to above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out above in which event it shall be conclusive and binding on Instrumentholders.

### **4.3 Purchases**

The Issuer and any of its Subsidiaries may at any time purchase Instruments in the open market or otherwise at any price.

“**Subsidiary**” means any corporation a majority of the outstanding voting stock of which is owned, directly or indirectly, by the Issuer.

#### **4.4 Early Redemption**

##### **4.4.1 Zero Coupon Instruments**

- (a) The Early Redemption Amount payable in respect of any Zero Coupon Instrument upon redemption of such Instrument pursuant to Condition 4.2 or upon it becoming due and payable as provided in Condition 8 shall be the Amortised Face Amount (calculated as provided below) of such Instrument.
- (b) Subject to the provisions of sub-paragraph (c) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.
- (c) If the Early Redemption Amount payable in respect of any such Instrument upon its redemption pursuant to Condition 4.2 or, if applicable, Condition 4.5 or upon it becoming due and payable as provided in Condition 8, is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the reference in that sub-paragraph to the date on which the Instrument becomes due and payable was replaced by a reference to the Relevant Date as defined in Condition 6. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 3.2.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction specified in the relevant Final Terms.

##### **4.4.2 Other Instruments**

The Early Redemption Amount payable in respect of any Instrument (other than Instruments described in Condition 4.4.1), upon redemption of such Instrument pursuant to this Condition 4.4 or upon it becoming due and payable as provided in Condition 8, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

#### **4.5 Redemption at the Option of the Issuer and Exercise of Issuer’s Options**

- 4.5.1 If (i) Residual Holding Call Option is specified in the relevant Final Terms, and (ii) if at any time the Residual Holding Percentage or more of the aggregate nominal amount of Instruments originally issued shall have been redeemed or purchased and cancelled, the Issuer shall have the option to redeem such outstanding Instruments in whole, but not in part, at their Residual Holding Redemption Amount. Unless otherwise specified in the relevant Final Terms, the Residual Holding Redemption Amount will be calculated by the Calculation Agent by discounting the outstanding nominal amount of the Instruments and the remaining interest payments (if applicable) to the Maturity Date by a rate per annum (expressed as a percentage to the nearest one hundred thousandth of a percentage point (with halves being rounded up)) equal to the Benchmark Yield, being the yield on the

Benchmark Security at the close of business on the third Business Day prior to the date fixed for such redemption, plus the Benchmark Spread. Where the specified calculation is to be made for a period of less than one year, it shall be calculated using the Benchmark Day Count Fraction. The Issuer will give not less than 15 nor more than 30 days' irrevocable notice to the Instrumentholders and the Trustee of any such redemption pursuant to this Condition 4.5.1.

- 4.5.2 If Call Option is specified in the relevant Final Terms, the Issuer may, unless an Exercise Notice has been given pursuant to Condition 4.6, on giving not less than 15 nor more than 30 days' irrevocable notice to the Instrumentholders (or such other notice period as may be specified in the relevant Final Terms), redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of such Instruments on any Optional Redemption Date(s) or Option Exercise Date, as the case may be. Any such redemption of Instruments shall be at their Optional Redemption Amount together with interest accrued to but excluding the date fixed for redemption. Any such redemption or exercise must relate to Instruments of a nominal amount at least equal to the minimum nominal amount (if any) permitted to be redeemed specified in the relevant Final Terms and no greater than the maximum nominal amount (if any) permitted to be redeemed specified in the relevant Final Terms.

All Instruments in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of the Issuer's option, the notice to Instrumentholders shall also specify the nominal amount of Instruments drawn and the holder(s) of such Instruments, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, listing authority and stock exchange requirements.

- 4.5.3 If Make-whole Redemption Option is specified in the relevant Final Terms as applicable, the Issuer may, unless an Exercise Notice has been given pursuant to Condition 4.6, on giving not less than 15 nor more than 30 days' irrevocable notice to the Instrumentholders (or such other notice period as may be specified in the relevant Final Terms), redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of such Instruments on any Make-whole Redemption Date(s). Any such redemption of Instruments shall be at an amount equal to the higher of the following, in each case together with interest accrued to but excluding the date fixed for redemption:

- (i) the nominal amount of the Instrument; and
- (ii) the nominal amount of the Instrument multiplied by the price (as reported in writing to the Issuer and the Trustee by a financial adviser (the "**Financial Adviser**") appointed by the Issuer and approved by the Trustee) and confirmed in writing by the Issuer to the Trustee expressed as a percentage (rounded to the nearest five decimal places, 0.000005 being rounded upwards) at which the Gross Redemption Yield (as defined below) on the Instruments on the Determination Date specified in the Final Terms is equal to the Gross Redemption Yield at the Quotation Time specified in the relevant Final Terms on the Determination Date of the Reference Bond specified in the relevant Final Terms (or, where the Financial Adviser advises the Trustee that, for reasons of illiquidity or otherwise, such Reference Bond is not appropriate for such purpose, such other government stock as such Financial Adviser may recommend) plus any applicable Redemption Margin specified in the Final Terms.

Any such redemption or exercise must relate to Instruments of a nominal amount at least equal to the minimum nominal amount (if any) permitted to be redeemed specified in the relevant Final Terms and no greater than the maximum nominal amount (if any) permitted to be redeemed specified in the relevant Final Terms.

All Instruments in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Instrumentholders shall also contain the serial numbers of the Instruments to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, listing authority and stock exchange requirements.

In this Condition:

**"Gross Redemption Yield"** means a yield calculated in accordance with generally accepted market practice at such time, as advised to the Trustee by the Financial Adviser.

#### **4.6 Redemption at the Option of Instrumentholders**

If Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of any Instrumentholder, upon such Instrumentholder giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms) redeem such Instrument on the Optional Redemption Date(s) (as specified in the relevant Final Terms) at its Optional Redemption Amount (as specified in the Final Terms) together with interest accrued to the date fixed for redemption.

To exercise such option (which must be exercised on an Option Exercise Date) the holder must deposit the Certificate representing the Instrument(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Instrumentholders' Option Period (as specified in the Final Terms). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

#### **4.7 Cancellation**

All Instruments redeemed pursuant to any of the foregoing provisions will be cancelled forthwith. All Instruments purchased by or on behalf of the Issuer or any of its Subsidiaries may, at the option of the Issuer be held by or may be surrendered for cancellation, but may not be resold and when held by the Issuer or any of its Subsidiaries shall not entitle the holder to vote at any meeting of Instrumentholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Instrumentholders or for the purposes of Condition 10. Instruments may be surrendered for cancellation by surrendering the Certificate representing such Instruments to the Registrar and, in each case, if so surrendered, shall, together with all Instruments redeemed by the Issuer, be cancelled forthwith.

### **5 Payments**

#### **5.1 Payments in respect of Instruments**

Payments of principal in respect of Instruments shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

Interest on Instruments shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Instrument shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Instrument at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

## **5.2 Payments subject to Fiscal Laws etc.**

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471 (b) of the U.S. Internal Revenue Code 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 to 1474 (inclusive) of the Code, any United States Treasury Regulations or agreements thereunder, any official interpretations thereof, any successor, substitute or similar legislation or law or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Instrumentholders in respect of such payments.

## **5.3 Appointment of Agents**

The Issuing and Paying Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (a) an Issuing and Paying Agent, (b) a Paying Agent having its specified office in a major European city, (c) a Calculation Agent where the Conditions so require one, (d) so long as the Instruments are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent having a specified office in such place as may be required by the rules and regulations of any other relevant stock exchange or other relevant authority and (e) a Registrar and a Transfer Agent. As used in these Conditions, the terms “**Issuing and Paying Agent**”, “**Calculation Agent**”, “**Registrar**”, “**Transfer Agent**” and “**Paying Agent**” include any additional or replacement Issuing and Paying Agent, Calculation Agent, Registrar, Transfer Agent or Paying Agent appointed under this Condition.

Notice of any such change or any change of any specified office shall promptly be given to the Instrumentholders in accordance with Condition 13.

## **5.4 Non-business days**

If any date for payment in respect of any Instrument is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located, in such jurisdictions as shall be specified as “**Financial Centres**” in the relevant Final Terms and:

**5.4.1** (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

**5.4.2** (in the case of a payment in Euro) which is a TARGET Business Day.

## 6 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Instruments will be made without withholding or deduction for or on account of, any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United States of America or any political subdivision of the United States of America or any authority in or of the United States of America having power to tax, unless such withholding or deduction is compelled by law. In that event, the Issuer will pay such additional amounts of principal and interest as will result in the payment to the Instrumentholders of the amounts which would otherwise have been receivable in respect of the Instruments had no withholding or deduction been made, except that no such additional amounts shall be payable in respect of any Instrument (or the Certificate representing it) presented for payment:

- (a) by or on behalf of, a person who is liable to such taxes or duties in respect of such Instrument (or the Certificate representing such Instrument) by reason of having some connection with the United States of America other than the mere holding of such Instrument (or the Certificate representing such Instrument); or
- (b) by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amounts on presenting the same (or in respect of which the Certificate representing it is presented) for payment on such 30th day; or
- (d) by a holder which is or was a controlled foreign corporation, personal holding company or passive foreign investment company with respect to the United States or a corporation that accumulates earnings to avoid United States federal income tax; or
- (e) if such tax is an estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment, or governance charge; or
- (f) by or on behalf of a holder which is or has been (i) a "10 per cent. shareholder" of the obligor of the Instruments as defined in Section 871(h)(3) of the Code or any successor provisions, (ii) a bank receiving such interest pursuant to a loan agreement entered into in the ordinary course of its trade or business as described in section 881(c)(3)(A) of the Code, or (iii) a controlled foreign corporation within the meaning of section 957 of the Code that is related to the Issuer within the meaning of section 864(d)(4) of the Code; or
- (g) by or on behalf of a holder who would have been able to avoid such withholding or deduction by satisfying any statutory or procedural requirements (including, without limitation, the provision of information or a United States Internal Revenue Service Form W-8 or Form W-9 (or a successor form)); or
- (h) in the case of any combination of items (a) to (g) above.

Notwithstanding the foregoing, no additional amounts shall be payable for or on account of (i) any taxes, duties, assessments or governmental charges that are imposed otherwise than by deduction or withholding from payments made under or with respect to the Instruments, (ii) any taxes, duties, assessments or governmental charges that are imposed on or with respect to any payment on an Instrument to an Instrumentholder who is a fiduciary, partnership, limited liability company, or person other than the Beneficial Owner of such payment to the extent that the Beneficial Owner with respect to such payment (or portion thereof) would not have been entitled to the additional amounts had the payment (or the relevant portion thereof) been made directly to such Beneficial Owner and (iii) any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States of America and another jurisdiction facilitating the implementation thereof (or any fiscal

or regulatory legislation, rules or practices implementing such an intergovernmental agreement). As used in clause (ii) above, “**Beneficial Owner**” means the person who is required by the laws of the relevant tax jurisdiction to include the payment in income for tax purposes.

As used in these Conditions, “**Relevant Date**” in respect of any Instrument means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Instrumentholders in accordance with Condition 13 that, upon further presentation of the Instrument being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (a) “**principal**” shall be deemed to include any premium payable in respect of the Instruments, all Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 4 or any amendment or supplement to it, (b) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 3 or any amendment or supplement to it and (c) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 7 Prescription

Claims against the Issuer for payment in respect of the Instruments shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 8 Events of Default

If any of the following events (each an “**Event of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested by the holders of at least one-quarter in nominal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer at its registered office that the Instruments are, and they shall accordingly immediately become due and repayable at their Redemption Amount together with accrued interest (if any) to the date of payment:

### (a) Non-Payment

there is default for more than 30 days in the payment of any principal or interest due in respect of the Instruments; or

### (b) Breach of Other Obligations

there is default in the performance or observance by the Issuer of any other obligation or provision under the Trust Deed or the Instruments (other than any obligation for the payment of any principal or interest in respect of the Instruments) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 90 days after notice of such default shall have been given to the Issuer by the Trustee; or

### (c) Cross-Acceleration

if (i) any other present or future Relevant Indebtedness of the Issuer or a Principal Subsidiary becomes due and payable prior to its stated maturity by reason of any actual event of default or (ii) any amount in respect of such Relevant Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the Relevant Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$200,000,000; or



**(d) Winding-up**

a resolution is passed, or a final order of a court in the United States of America is made and, where possible, not discharged or stayed within a period of 90 days, that the Issuer be wound up or dissolved; or

**(e) Enforcement Proceedings**

attachment is made of the whole or substantially the whole of the assets or undertakings of the Issuer and such attachment is not released or cancelled within 90 days or an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer or an administration or similar order is made in relation to the Issuer and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or

**(f) Insolvency**

the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts; or

**(g) Bankruptcy**

the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in the United States of America,

provided that in the case of paragraph (b) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Instrumentholders.

For the purposes of this Condition 8, "**Principal Subsidiary**" means KeySpan Corporation, KeySpan Energy Delivery New York, KeySpan Energy Delivery Long Island, Niagara Mohawk Power Corporation, Massachusetts Electric Company, the Narragansett Electric Company and New England Power Company, and includes any successor entity thereto or any member of the group of companies comprising NGNA and its subsidiaries (the "**Group**") to which all or substantially all of the assets of a Principal Subsidiary are transferred. In the event that all or substantially all of the assets of a Principal Subsidiary are transferred to a member of the Group as described above, the transferor of such assets shall cease to be deemed to be a Principal Subsidiary for the purposes of this Condition.

**9 Enforcement**

The Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Instruments or under the Trust Deed, but shall not be bound to do so unless:

- (a) it has been so directed by an Extraordinary Resolution or in writing by the holders of at least one-quarter of the principal amount of the Instruments outstanding; and
- (b) it has been indemnified to its satisfaction.

No Instrumentholder shall be entitled to institute proceedings directly against the Issuer unless the Trustee, having become bound to proceed as specified above, fails to do so within a reasonable time and such failure is continuing.

**10 Meetings of Instrumentholders, Modifications and Substitution**

**10.1 Meetings of Instrumentholders**

The Trust Deed contains provisions for convening meetings of Instrumentholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust

Deed. An Extraordinary Resolution duly passed at any such meeting shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) except that any Extraordinary Resolution proposed, *inter alia*, (a) to amend the dates of maturity or redemption of the Instruments or any date for payment of interest on the Instruments, (b) to reduce or cancel the nominal amount of or any premium payable on redemption of the Instruments, (c) to reduce the rate or rates of interest in respect of the Instruments or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Instruments, (d) if a Minimum and/or a Maximum Rate of Interest is shown on the face of the Instrument, to reduce any such Minimum and/or Maximum Rate of Interest, (e) to vary any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, (f) to take any steps that as specified in this Instrument may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, and (g) to modify the provisions concerning the quorum required at any meeting of Instrumentholders or the majority required to pass the Extraordinary Resolution will only be binding if passed at a meeting of the Instrumentholders (or at any adjournment of that meeting) at which a special quorum (as defined in the Trust Deed) is present. A resolution in writing signed by the holders of not less than 95 per cent. in nominal amount of the Instruments will be binding on all Instrumentholders. The Issuer may convene a meeting of the holders of any or all Instruments issued pursuant to the Agency Agreement and not forming a single series with the Instruments to which meeting the provisions referred to above apply as if all such Instruments formed part of the same series, provided that the proposals to be considered at such meeting affect the rights of the holders of the Instruments of each series attending the meeting in identical respects (save insofar as the Conditions applicable to each such series are not identical).

#### **10.2 Modification of the Trust Deed**

The Trustee may agree, without the consent of the Instrumentholders to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Instrumentholders. Any such modification, authorisation or waiver shall be binding on the Instrumentholders and, if the Trustee so requires, such modification shall be notified to the Instrumentholders as soon as practicable. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 3.10 without the consent of the Instrumentholders. Any such modification shall be binding on Instrumentholders and, unless the Trustee otherwise agrees, the Issuer shall cause notice of such modification to be given to the Instrumentholders as soon as practicable thereafter.

#### **10.3 Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Instrumentholders, to the substitution of any other company in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Instruments. In the case of such a substitution the Trustee may agree, without the consent of the Instrumentholders, to a change of the law governing the Instruments and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Instrumentholders.

#### **10.4 Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Instrumentholders as a class

and shall not have regard to the consequences of such exercise for individual Instrumentholders and the Trustee shall not be entitled to require, nor shall any Instrumentholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Instrumentholders.

## **11 Replacement of Certificates**

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, listing authority and stock exchange regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Instrumentholders, in each case on payment by the claimant of the fees and costs incurred in connection with that replacement and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates and otherwise as the Issuer may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **12 Further Issues**

The Issuer may from time to time without the consent of the Instrumentholders create and issue further instruments having the same terms and conditions as the Instruments and so that such further issue shall be consolidated and form a single series with such Instruments.

References in these Conditions to the Instruments include (unless the context requires otherwise) any other instruments issued pursuant to this Condition and forming a single series with the Instruments. Any such further instruments forming a single series with Instruments constituted by the Trust Deed or any deed supplemental to it shall, and any other instruments may (with the consent of the Trustee), be constituted by the Trust Deed.

The Trust Deed contains provisions for convening a single meeting of the Instrumentholders and the holders of instruments of other series if the Trustee so decides.

## **13 Notices**

Notices to the Instrumentholders shall be mailed to them at their respective addresses shown in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

## **14 Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including but not limited to provisions relieving it from any obligation to (a) appoint an independent financial adviser and (b) take proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any of its subsidiary undertakings, parent undertakings, joint ventures or associated undertakings without accounting for any profit resulting from these transactions and to act as trustee for the holders of any other securities issued by the Issuer or any of its subsidiary undertakings, parent undertakings, joint ventures or associated undertakings.

## **15 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Instruments under the Contracts (Rights of Third Parties) Act 1999.

## **16 Governing Law and Jurisdiction**

### **16.1 Governing Law**

The Instruments and any non-contractual obligations arising out of or in connection with the Instruments are governed by, and shall be construed in accordance with, English law.

### **16.2 Jurisdiction**

The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Instruments. The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. Nothing in this Condition 16 prevents the Trustee or any Instrumentholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, the Trustee or Instrumentholders may take concurrent Proceedings in any number of jurisdictions.

### **16.3 Process Agent**

The Issuer has irrevocably appointed National Grid plc at its registered office for the time being, currently at 1-3 Strand, London WC2N 5EH as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

## **17 Transfers of Instruments**

### **(a) Transfers of Instruments**

One or more Instruments may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Instruments to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Instruments represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Instruments and entries on the Register will be made subject to the detailed regulations concerning transfers of Instruments scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Instrumentholder upon request.

### **(b) Exercise of Options or Partial Redemption**

In the case of an exercise of an Issuer’s or Instrumentholders’ option in respect of, or a partial redemption of, a holding of Instruments represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Instruments of the same holding having different terms, separate Certificates shall be issued in respect of those Instruments of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Instruments to a person who is already a holder of Instruments, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

**(c) Delivery of New Certificates**

Each new Certificate to be issued pursuant to Conditions 17(a) or (b) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 17(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

**(d) Transfers Free of Charge**

Transfers of Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

**(e) Closed Periods**

No Instrumentholder may require the transfer of an Instrument to be registered (i) during the period of 15 days ending on the due date for redemption of that Instrument, (ii) during the period of 15 days prior to any date on which Instruments may be called for redemption by the Issuer at its option pursuant to Condition 4.5, (iii) after any such Instrument has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

## **SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM**

### **1 Initial Issue of Instruments**

If the Global Certificates are to be held under the NSS, the Global Certificates will be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper. On each issue of Instruments, the Issuer shall confirm to the Issuing and Paying Agent and to the clearing systems whether or not the Global Certificate the Global Certificate(s) are to be held under the NSS and whether or not the Global Certificate(s) are intended to be held in a manner which would allow recognition as eligible collateral for Eurosystem monetary policy and intra-day credit operations and if the relevant Global Certificate is to be deposited with one of the ICSDs as Common Safekeeper and registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper. Depositing the Global Certificates with the Common Safekeeper does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to the Common Depository or a depository for such other clearing system indicated in the applicable Final Terms (an “**Alternative Clearing System**”).

Upon the registration of the Instruments in the name of any nominee for Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and delivery of the relative Global Certificate to the Common Depository or Common Safekeeper or depository (as the case may be), Euroclear or Clearstream, Luxembourg or any Alternative Clearing System will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid. Instruments which are initially deposited with the Common Depository or Common Safekeeper or depository (as the case may be) may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg or any Alternative Clearing System held by such other clearing systems. Conversely, Instruments that are initially deposited with any Alternative Clearing System may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### **2 Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System as the holder of an Instrument represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the underlying Instruments, and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the underlying Instruments, in respect of each amount so paid.

### **3 Exchange**

#### **3.1 Temporary Global Certificates**

Each Temporary Global Certificate will be exchangeable for interests in a Permanent Global Certificate, free of charge to the holder, on or after the day falling after the expiry of the 40 days

after the relevant issue date, in whole or in part upon certification as to non-U.S. beneficial ownership.

### **3.2 Global Certificates**

The following will apply in respect of transfers of Instruments held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Instruments within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Instruments may be withdrawn from the relevant clearing system.

Transfers of the holding of Instruments represented by any Global Certificate pursuant to Condition 17(a) may only be made in part:

- (i) if the Global Certificate is held by or on behalf of CDS Clearing & Depository Securities Inc. (“**CDS**”) and (A) CDS has notified the Issuer that it is unwilling or unable to continue to act as a depository for the Instruments and a successor depository is not appointed by the Issuer within 90 working days after receiving such notice; or (B) CDS ceases to be a recognised clearing agency under applicable Canadian securities legislation and no successor clearing system satisfactory to the Trustee is available within 90 working days after the Issuer becomes aware that CDS is no longer so recognised; or
- (ii) if the relevant clearing system (other than CDS) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3(ii) above, the holder has given the Registrar not less than 30 days’ notice at its specified office of the holder’s intention to effect such transfer.

## **4 Amendment to Conditions**

Each Global Certificate will contain provisions that apply to the Instruments which they represent, some of which modify the effect of the terms and conditions of the Instruments set out in this Prospectus. The following is a summary of certain of those provisions:

### **4.1 Payments**

If the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Instruments recorded in the records of the relevant clearing system and represented by the Global Certificate will be reduced accordingly. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

All payments in respect of Instruments represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (i.e. the “**Record Date**”), where Clearing System Business Day means Monday to Friday (inclusive) except 25 December and 1 January.

### **4.2 Meetings**

The holder of Instruments represented by a Global Certificate shall (unless such Global Certificate represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of Instrumentholders and, at any such meeting, as having

one vote in respect of each integral currency unit of the Specified Currency of the Instruments for which it may be exchanged in accordance with its terms.

#### **4.3 Issuer's Option**

In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system or approved intermediary in respect of the Instruments will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

#### **4.4 Instrumentholders' Options**

Any option of the Instrumentholders provided for in the Conditions of any Instruments while such Instruments are represented by a Global Certificate may be exercised by the holder of the Global Certificate giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent. Where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Instruments recorded in those records will be reduced accordingly.

#### **4.5 Trustee's Powers**

In considering the interests of Instrumentholders while any Instruments represented by a Global Certificate are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Instruments and may consider such interests as if such accountholders were the holders of the Instruments represented by such Global Certificate.

#### **4.6 Events of Default**

Each Global Certificate provides that the Trustee, at its discretion, may, and if so requested by holders of at least one-quarter in nominal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution, shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) cause such Global Certificate to become due and repayable in the circumstances described in Condition 8 by stating in the notice to the Issuer the principal amount of such Instruments represented by the Global Certificate which is or are becoming due and repayable. If principal in respect of any Instrument is not paid when due, only the Trustee may enforce the rights of the Instrumentholders against the Issuer under the terms of the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

#### **4.7 Notices**

So long as any Instruments are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for delivery of the relevant notice to the holder of the Global Certificate. Where a Global Certificate held by CDS is exchanged for definitive Instruments in the circumstances set out in paragraph 3 (*Exchange*) above, the Issuer will provide notices to Instrumentholders in accordance with the Conditions, provided however that such notices will be published in a leading daily newspaper of general circulation in Canada (which is expected to be The Globe and Mail).



## **USE OF PROCEEDS**

The net proceeds of the issue of each Series of Instruments will be used by the Issuer for its general corporate purposes.

## DESCRIPTION OF THE GROUP

### Overview and Organisational Structure

National Grid North America Inc. (“**NGNA**”) is an indirect, wholly-owned subsidiary of National Grid plc and the top holding company in National Grid plc’s corporate structure in the United States. NGNA acts as a treasury, finance and holding company for National Grid plc in the United States and also operates as a vehicle for acquisition financing for National Grid plc in the United States through intercompany lending arrangements. NGNA, NGUSA (as defined in the next paragraph) and other subsidiaries of NGNA have also regularly borrowed from related and unrelated third-party lenders in the normal course of business in order to fund operations and settle obligations that become due on the basis of their individual published ratings from nationally recognised rating agencies in the United States.

NGNA owns all of the outstanding common stock of National Grid USA (“**NGUSA**”), a Delaware corporation and public utility holding company, headquartered in Waltham, Massachusetts, that primarily owns and operates, through various regulated subsidiaries, electric and natural gas transmission and distribution businesses in the north-eastern United States and also has liquefied natural gas (“**LNG**”) storage and transportation and has an equity interest in FERC-regulated gas transmission pipelines in the United States and a generator of electricity on Long Island New York. Since its formation, NGNA has borrowed from National Grid plc and other UK affiliates to fund various acquisitions in the U.S., including the acquisition of (i) Niagara Mohawk Power Corporation in 2002, (ii) the gas operations of Narragansett Electric Company in 2006, and (iii) KeySpan Corporation<sup>1</sup> (“**KeySpan**”) in 2007. NGNA has also assumed intercompany debt obligations in connection with the acquisition of (iv) New England Electric System and Eastern Utilities Associates in 2000. NGNA has refinanced these debts with National Grid plc on several occasions. The intercompany debt arrangements described in (i), (ii) and (iv) were fully repaid in 2014, 2016 and 2018, respectively. The intercompany debt arrangement relating to the acquisition of KeySpan is expected to be repaid by 2027.

NGNA was incorporated under the name “National Grid Holdings Inc.” in the State of Delaware on 16 May 2001 under the General Corporation Laws of the State of Delaware with file number 3392761. On 25 September 2012, National Grid Holdings Inc. changed its name to National Grid North America Inc. by filing an amended certificate of incorporation in the State of Delaware under the General Corporations Laws of the State of Delaware with the file number noted above. The address of NGNA is 40 Sylvan Road, Waltham, MA 02451 and its telephone number is +1-781-907-1000. The address of NGNA’s registered office is at 251 Little Falls Drive, Wilmington, Delaware. The name of its registered agent at such address is Corporation Service Company.

As used in this section of the Prospectus, unless the context requires otherwise, any references to “Group” or “NGNA” shall mean National Grid North America Inc. and its principal public utility subsidiaries as appropriate in the context of the disclosure.

### Principal Activities and Markets

#### ***US Regulated Business***

NGNA’s regulated businesses are:

- Electricity transmission;
- Gas distribution;
- Electricity distribution;
- Electricity generation; and

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<sup>1</sup> KeySpan Corporation was merged into NGUSA on 30 April 2018.

- LNG storage.

**US Non-regulated Business**

- LNG road transportation; and
- Equity investment – Electric Transmission, natural gas pipelines and renewables.

NGNA’s principal public utility subsidiaries are as follows:

<b>Company Name</b>	<b>Principle Operations</b>	<b>Location</b>	<b>Regulatory Environment</b>
Niagara Mohawk Power Corporation (“ <b>NMPC</b> ”) (upstate NY)	Electricity-Distribution & Transmission Natural Gas-Distribution	New York	New York Public Service Commission (“ <b>NYPSC</b> ”) & FERC
The Brooklyn Union Gas Company (“ <b>Brooklyn Union</b> ”) doing business as National Grid NY (formerly known as KEDNY) (downstate NY)	Natural Gas-Distribution	New York	NYPSC
KeySpan Gas East Corporation (“ <b>Gas East</b> ”) (formerly known as KEDLI) (downstate NY)	Natural Gas-Distribution	New York	NYPSC
Massachusetts Electric Company (“ <b>MECO</b> ”)	Electricity – Distribution	Massachusetts	Mass. Dept. of Public Utilities (“ <b>MADPU</b> ”) & FERC
Nantucket Electric Company (“ <b>NEC</b> ”)	Electricity – Distribution	Massachusetts	MADPU & FERC
Boston Gas Company (“ <b>Boston Gas</b> ”)	Natural Gas-Distribution	New England	MADPU
Colonial Gas Company (“ <b>Colonial Gas</b> ”)	Natural Gas-Distribution	New England	MADPU
The Narragansett Electric Company (“ <b>NECO</b> ”) – Rhode Island	Electricity Distribution & Transmission Natural Gas-Distribution	Rhode Island	Rhode Island Public Utilities Commission (“ <b>RIPUC</b> ”) & FERC
New England Power Company (“ <b>NEP</b> ”)	Electricity Transmission	New England	FERC
New England Hydro-Transmission Electric Company, Inc. (“ <b>Mass. Hydro</b> ”)	Electricity Transmission	Massachusetts	FERC
New England Electric Transmission Corporation (“ <b>NEET</b> ”)	Electricity Transmission	Massachusetts & New Hampshire	FERC
New England Hydro-Transmission Corporation (“ <b>N.H. Hydro</b> ”)	Electricity Transmission	New Hampshire	FERC

In order for NGNA to meet its current and expected business requirements and operational needs it (i) owns in fee or leases office buildings that comprise its principal U.S. business for its businesses located in upstate and downstate New York and New England, and (ii) owns property in fee or holds necessary property rights to operate its energy delivery networks pursuant to franchise agreements, municipal grants and/or consents, easements, or long-term leases and licenses. As at 31 March 2018, NGNA's primary operating offices consist of office space owned in upstate New York Office located in Syracuse, New York and leased office space located in Brooklyn, New York and Waltham, Massachusetts totalling 52,676 square metres (567,000 square feet) with remaining lease terms of 9 to 13 years.

### Strategy and Company Objectives

NGNA completed the reorganisation and restructuring of its US operations in September 2011 transforming its lines of business model from a global to a regional model incorporating regional 'presidents' in New York, Massachusetts and Rhode Island, and a separate president responsible for its federally regulated business, each aligned and accountable for providing safe, efficient, reliable and cost effective services to its customers and regulators and to ensure better alignment of NGNA's business operations with the local needs of its customers. More recently in fiscal year 2018/19, the Group proposed certain leadership changes that were made to further enhance this jurisdictional model but streamline overall operational delivery, better manage day-to-day operations, efficiencies, corporate activities and enhance collaboration efforts with regulatory bodies exercising jurisdiction over the activities of NGNA.

The Group's current strategy, referred to as "bring energy to life", is described by the Group as getting the heat, light and power that customers rely on to their homes and businesses; supporting the communities of which the Group is a part; and supporting the economic growth and sustainability of the wider society.

Priorities for the year ahead are focused on customers and include the following specific areas and continuation of legacy themes:

#### Future Proofing the Group's Business:

- **Optimising Operational Performance** – so that NGNA can maximise value from its businesses. Improvements in NGNA's performance increases efficiency and ultimately benefits the customer by improving affordability and overall performance.
- **Drive asset growth** – seeking opportunities to grow by investing in core regulated assets where Management see strong potential. This investment is intended to deliver asset health, network expansion and modernisation.
- **Position for the Future** – growing National Grid Ventures, which was formed as a new business segment in fiscal year 2016/17 and will focus on developing new growth opportunities and strengthening NGNA's commercial and partnership capabilities for the future. Future proofing NGNA's business for technology and value shifts by anticipating and responding to the evolving needs of NGNA's customers through leveraging existing assets, strengthening innovation efforts and fostering strategic partnerships.

**Performance Excellence:** Driving a step change in the core business performance through more efficient customer focused processes and best practice sharing. Continue safety compliance and

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<sup>2</sup> GENCO is a New York limited liability company that owns and operates 50 electric generation units with approximately 3,800 megawatts of electric generation capacity located in Long Island. GENCO, together with its wholly-owned subsidiaries, National Grid Glenwood Energy Center LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson"), sell capacity, energy conversion, and ancillary services to the Long Island Power Authority ("LIPA") (see discussion under the section entitled "Principle Operations" and "Other Activities").

performance excellence through new ways of working, compliance improvement programmes and safety plans.

- **Customer Value:** deliver tangible value to customers as identified and measured by service level agreements, aligning its end-to-end processes to customer needs and working to strengthen its relationship with the communities NGNA serves and improving its financial performance through new rate filings and actions to increase the efficiency of the Group's operations.
- **Future Customer Expectations:** Anticipate customer needs and transform the customer experience. Linking customer needs and energy policy goals to create cleaner, more efficient ways of procuring and delivering energy using technology and market-based solutions promoting smart infrastructure investments that lead to growth, reliability, resiliency and enhanced power quality. Leverage the jurisdictional model, digital customer experience, New Energy Solutions and REV/GridMod filings.

As part of a corporate wide initiative to modernise its integrated information system networks to enable improvements, greater operational efficiencies and cost savings, NGNA developed and implemented a new US enterprise resource planning system. NGNA has commenced a new gas business enablement initiative upgrading systems and improving processes to build a more robust gas system to meet expected asset replacement and customer growth requirements and to address the increasing regulatory requirements around gas safety. This initiative and the other integrated multiple information systems and improved control processes have the objective of delivering a single financial system, a single cost allocation methodology and enhanced jurisdictional and functional reporting.

## **Business Activities and Description – Overview**

### ***Energy Delivery in the north-eastern United States***

In the north eastern United States, electricity supply is transported either directly from generators or independent suppliers into local electricity distribution networks or via electricity transmission networks similar to the ones owned and operated by NGNA, while natural gas is obtained from importation terminals, natural gas producers or independent suppliers transported on natural gas transmission pipelines and then transported through local natural gas distribution networks referred to as local distribution companies (“**LDC**”) such as those owned and operated by NGNA. There are more than 25 companies and organisations that own or operate energy delivery infrastructure in the north-eastern United States, including but not limited to NGNA, Consolidated Edison, Eversource Energy, Avangrid and Iberdrola.

Over the last several years, the utility industry has undergone significant change as market forces moved towards replacing or supplementing rate regulation through the introduction of competition regarding the supply of electricity and natural gas commodity to public utility customers. In most states in the north-eastern United States, including those states where NGNA owns and operates energy delivery networks, with the exception of residential gas customers in Rhode Island, customers are able to purchase their energy commodities either from the local public utilities (i.e. providers of last resort (“**POLR**”)) or through independent energy suppliers or marketers participating in regulatory sanctioned state “customer retail choice” or “retail unbundling” type programs. NGNA has taken a leadership position by advocating a well-managed energy delivery system as the key to enabling robust, competitive electricity markets that offer customers choice, savings and other benefits and supports regulatory approved retail choice initiatives/unbundling programmes. However, while a number of larger commercial customers have chosen to receive their energy commodity needs from independent energy suppliers, the majority of residential and small commercial customers still purchase their energy commodity from NGNA as the designated POLR under the applicable state public service laws regulating public utilities. If a customer opts to purchase energy commodities from an independent energy supplier, those suppliers are then responsible for sourcing that energy commodity from electricity generators or from natural gas extractors or importer as appropriate, as well as arranging for energy to

be delivered through physical energy delivery networks such as those owned and operated by a regulated public utility (for example, NGNA) in the service territory.

In light of the renewed interest in public policy debate about restructuring the electricity industry in the U.S., state regulators continue to strongly support current recovery of power supply costs. NGNA continues to collaborate with regulators, policy makers, and customers to advance the development of the competitive electricity marketplace. In the north-eastern U.S., where NGNA's regulated operations are located, state governments and regulators have expressed interest in tackling issues around climate change and security of supply and the power grid in general. In addition, the state regulators in those states where NGNA and its subsidiaries operate energy delivery networks actively continue to promote and explore ways to reform the energy industry and regulatory practices, and drive regulatory change intended to promote increases in energy efficiency. Some of the policy initiatives include development of smart grid technologies, more efficient use of the transmission and distribution power grids, lower line losses, greater use of renewables and the provision of information to utilities and their customers that will lead to greater investment in transmission, energy efficiency reduced peak load demands and renewable generation (see "*Regulatory Initiatives and Programmes - Reforming the Energy Vision ("REV") Proceeding*" below for further information).

## **Principal Operations**

NGNA owns, operates and maintains regulated electricity and gas infrastructure (i.e. energy delivery networks) located in the north-eastern U.S. NGNA owns and operates, through its subsidiaries, electricity distribution networks in upstate New York, Massachusetts, and Rhode Island. Through these networks, the Group serves approximately 3.5 million electricity consumers in New England and upstate New York. NGNA's U.S. natural gas LDCs provide services to around 3.6 million consumers across the north-eastern U.S., located in service territories in upstate New York, New York City, Long Island, Massachusetts and Rhode Island.

NGNA owns and operates, through its subsidiaries, an electricity transmission system of approximately 14,145 kilometres (8,789 miles) of overhead lines spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont operating approximately 174 kilometres (108 miles) of underground cable and approximately 491 transmission substations.

NGNA owns and operates, through its subsidiaries, natural gas LDC networks consisting of approximately 59,491 kilometres (35,102 miles) of gas pipeline serving an area of approximately 25,597 square kilometres (9,883 square miles) which includes portions of upstate New York, Massachusetts, and Rhode Island, and approximately 790 kilometres (491 miles) of natural gas transmission pipe, as defined by the US Department of Transportation.

NGNA's subsidiary, GENCO, also owns and operates 50 fossil-fuel powered units on Long Island that together provide approximately 3,800 megawatts ("**MW**") of power under contract to the Long Island Power Authority ("**LIPA**"). A 15-year power supply agreement with LIPA was renewed in May 2013 for 3,634 MW of capacity, comprising eight dual fuel (gas/oil-fired) steam units at three sites, 11 dual fuel combustion turbine units, and 27 oil-fired combustion turbine/ diesel units. Under a separate contract with LIPA, four dual fuel combustion turbine units provide an additional 160 MW of capacity. NGNA is responsible for billing, customer service and supply services. NGNA forecasts, plans for and procures approximately 16.5 billion standard cubic metres of gas and 27.5 TWh of electricity annually across three states.

NGNA's operation of its energy delivery networks within its assigned service territory within each state is authorised, operated and governed by a mixture of statutory authority, legislative charters, tariff provisions and municipal grants and agreements (for example, franchise agreements) all of which allow NGNA to locate and operate its businesses within and across public ways including right-of-way corridors for its distribution network within privately owned land acquired in fee or by grants of perpetual

easements and transmission and sub-transmission substation networks principally located on properties that are owned in fee.

As described under “Overview” above, the supply of electricity and gas is competitive in that consumers can choose their energy supplier. NGNA’s energy delivery networks, however, are generally considered natural monopolies in their designated local service territories as, for the majority of customers, there are no alternative methods of receiving electricity and natural gas. As such, NGNA’s utility operations are subject to various state and federal regulatory agencies charged with the responsibility to oversee NGNA’s utility service to ensure that its utility customers are charged just and reasonable rates for utility services provided.

### **Electricity Transmission**

- NMPC - Bundled electricity transmission and distribution services and operations in upstate New York; and
- NEP - New England principally through NEP.

Electricity transmission and distribution networks, including the ones NGNA owns and operates, are members of regional transmission organisations or independent system operators (i.e., “RTO” or “ISO”) that have the responsibility for balancing electricity supply and demand to maintain reliability of the transmission network. NGNA transmission and distribution networks are members of the New England and New York ISOs which are responsible for (i) operating organised wholesale markets for energy, operating reserves and capacity, (ii) maintaining the operating reliability of the New England and New York transmission networks, (iii) co-ordinating the activities of the transmission owners, and (iv) managing transparent transmission expansion planning processes.

The Group purchases electricity through the New York ISO and New England ISO day-ahead and spot markets for transmission and distribution to those customers that are purchasing energy commodity from the Group. The Group also supplements its ISO purchases with electricity purchased under various bilateral power purchase contracts directly with generators.

As of 31 March 2018, the Group owns and operates an electricity transmission network of approximately 14,145 kilometres (8,789 miles) that spans upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont located within rights-of-way corridors that traverse both public and private property consisting. In addition, it owns and operates approximately 224 kilometres (139 miles) of transmission interconnector including underground cable between New England and Canada.

### **Electricity Distribution**

- NMPC - Upstate New York;
- MECO and NEC - Massachusetts; and
- NECO - Rhode Island.

NGNA’s electricity distribution networks owned and operated in upstate New York through NMPC, Massachusetts through MECO and NEC and Rhode Island through Narragansett, provide energy delivery services to customers that include domestic homes and small and large commercial and industrial enterprises. As at 31 March 2018, NGNA’s electricity distribution networks serve approximately 3.5 million electricity consumers in New England and upstate New York.

### **Natural Gas Distribution (LDCs)**

- NMPC – LDC for the central and eastern portion of upstate New York;

- Brooklyn Union (“**KEDNY**”) and Gas East (“**KEDLI**”) – LDCs for portions of New York City and Long Island, respectively;
- NECO – LDC for Rhode Island; and
- Boston Gas and Colonial Gas (together, the “**Massachusetts Gas Businesses**”) – LDC for a portion of Massachusetts.

LDCs owned and operated by NGNA are each responsible for balancing natural gas supply with demand within their respective distribution areas. They purchase natural gas under long and short-term firm contracts, as well as on the spot market for its customers from domestic and Canadian supply basin gas producers and gas transporters and then transport this natural gas under long term contracts with interstate pipeline companies on the independent FERC regulated interstate pipeline system and then into state regulated utilities’ natural gas distribution networks owned and operated by the LDCs for delivery to customers. The NGNA LDCs receive natural gas from the interstate pipeline system at various city gate stations owned and operated by NGNA’s LDCs. The interstate pipeline system and local natural gas distribution networks are also used to deliver natural gas on behalf of customers who have purchased natural gas from independent suppliers or direct from natural gas producers. In addition, the NGNA LDCs manage gas assets such as natural gas transportation and storage capacity to ensure that commodity supply is adequate for delivery to customers. The NGNA LDCs also may elect to supplement gas from the interstate pipeline system with LNG and propane facilities in a number of locations where it is cost effective to do so.

The majority of natural gas supplied to customers in the United States is still sold by NGNA’s LDCs (i.e. as a POLR) which is also responsible for transportation and delivery of natural gas to customers located within the LDCs service distribution territory.

## **Other Activities**

### **Other U.S. Regulated Activities**

#### **LIPA Amended and Restated Power Supply Agreement**

*LIPA Amended and Restated Power Supply Agreement (“**A&RPSA**”)*: NGNA through its generation subsidiary, GENCO, owns, operates and manages a number of power plants on Long Island, with a generation capacity of 3,800 MW. It supplies wholesale capacity and energy to LIPA under an agreement with LIPA that was renewed in May 2013. LIPA Public Service Electric & Gas of New Jersey currently provides retail electricity to communities and businesses on Long Island.

On 23 May 2013, the FERC approved the A&RPSA which expires on 30 April 2028 and replaces the original Power Supply Agreement (“**PSA**”) that was effective from May 1998 to May 2013. LIPA may terminate the agreement as early as 30 April 2025 upon two years’ advance notice. The agreement sets a ROE of 9.75 per cent. and a capital structure with an equity component of 50 per cent. The A&RPSA continues certain annual rate adjustments, such as pension and other post-retirement benefit expenses, property tax true-up, adjustments for new plant in service, and certain inflationary increases. The A&RPSA allows both parties a ROE re-opener in contract years four to six depending on financial market changes, and NGNA a one-time rate re-opener in contract year six. The A&RPSA also contains new options for modernising the power plants through repowering existing facilities to reduce energy costs and improve environmental performance.

### **U.S. Non-regulated Businesses and Investments**

Some of NGNA’s U.S. businesses are not subject to state or federal rate-making authority. These include interests in some of NGNA’s LNG road transportation, some gas transmission pipelines (NGNA’s minority equity interests in these are not regulated but the gas pipeline transmission activities are subject to FERC’s jurisdiction) and investments in solar installations, fuel cells and other new technologies that are an important part of NGNA’s future.



## **LNG Facilities**

Subsidiaries of NGNA own and operate LNG storage facilities in various locations in the north-eastern United States including in Greenpoint, New York, Dorchester, Salem, and Lynn, Massachusetts and Providence, Rhode Island. These facilities provide NGNA's gas operation with a local store of gas which can be vaporised into NGNA's natural gas distribution system to supplement pipeline gas in periods of high demand. NGNA's Providence, Rhode Island LNG facility is regulated by the FERC while the other LNG facilities noted herein are regulated by NYPSC and MADPU within the associated regulated gas distribution companies' rates.

## **Interconnection Facilities**

NEET, in which NGNA indirectly holds 100 per cent. of the common stock, owns and operates a portion of the first phase of the Hydro-Quebec and New England interconnection (the "**Interconnection**"), consisting of six miles of high-voltage direct current transmission line and related facilities in New Hampshire. N.H. Hydro, in which NGNA indirectly holds 54 per cent. of the common stock, owns and operates approximately 116 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Interconnection, extending to the Massachusetts border. Mass. Hydro, in which NGNA indirectly holds 54 per cent. of the common stock, owns and operates an alternating current/direct current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. These facilities are made available to customers under the ISO New England's Open Access Transmission Tariff, and are subject to New England ISO operational control.

NGNA, through subsidiaries, also owns a minority equity interest in three regional nuclear generating companies Yankee Atomic Electric Company, Connecticut Yankee Atomic Power Company and Maine Yankee Atomic Power Company whose facilities have been permanently retired and physically decommissioned.

## **National Grid Ventures**

In fiscal year 2016/17, National Grid plc announced the creation of National Grid Ventures ("**NGV**") to drive growth outside of its regulated core business in competitive markets across the U.S. and the UK. The NGV business in the UK comprises commercial operations in metering, LNG and electricity interconnectors, and focuses on investment and future activities in emerging growth areas. In the U.S., National Grid Ventures focuses on the following areas:

- competitive transmission;
- distributed energy in areas, including, but not limited to, solar PV, battery storage and resource management; and
- U.S. strategic growth in areas including, but not limited to, solar, on/offshore wind, and energy storage.

## **National Grid Partners**

In fiscal year 2017/18, National Grid plc announced the creation of a venture capital business, National Grid Partners ("**NGP**"), based in California. NGP will make modest investments intended to help NGNA remain at the forefront of technological developments relevant for its industry. NGP's investments will be focused on start-ups and small companies developing new technologies that will provide clear benefit to NGNA's existing businesses.

## **Regulatory Environment**

### **Overview**

In the US, NGNA's public utilities' retail transactions are regulated by state utility commissions, which include the New York Public Service Commission ("**NYPSC**") for NMPC, Brooklyn Gas, and Gas East,

the Massachusetts Department of Public Utilities (“**MADPU**”) for MECO and NEC and the Rhode Island Public Utilities Commission (“**RIPUC**”) for Narragansett. Utility commissions serve as economic regulators in approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their respective jurisdictions. The FERC regulates the wholesale utility transactions of public utilities, such as interstate gas and electricity transmission and electricity generation, and provides for the cost recovery of these services.

State and Federal utility commissions regulating utility services of NGNA’s utility subsidiaries in the U.S. are also charged with serving the public interest by ensuring utilities provide safe and reliable service at just and reasonable prices. They establish service standards and approve mergers and acquisitions of public utilities. The FERC also regulates public utility holding companies and centralised service companies, including those of NGNA.

As discussed earlier, except for residential and small commercial consumers in Rhode Island, NGNA’s customers in all the other states in which NGNA operates have deregulated the commodity or supply component of electricity and gas utility services. Customers in deregulated states have the option to purchase electricity or gas services from competitive or independent suppliers. (See “*Business Activities and Description – Overview*”).

#### **Rate Plans and Allowed ROE in context**

Rate plans are designed to produce a specific allowed return on equity (“**ROE**”), by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow utilities to retain a proportion of the earnings above the allowed ROE it achieves through improving efficiency, with the balance benefiting customers. In addition, utilities’ performance under certain rate plans is subject to service performance targets, and may be subject to monetary penalties in cases where it does not meet those targets.

One measure used to monitor the performance of a regulated utility’s business is by a comparison of achieved ROE to allowed ROE, with a target that the achieved should be equal to or above the allowed. However, this measure cannot be used in isolation, as there are a number of factors that may prevent a utility from achieving that target, including the following:

- **Regulatory Lag** - in the years following the rate year, costs may increase due to inflation or other factors. If the cost increases cannot be offset by productivity gains, the total cost to deliver will be higher as a proportion of revenue and therefore achieved ROE will be lowered.
- **Cost disallowances** - a cost disallowance is a decision by the regulator that a certain expense should not be recovered in rates from customers. The regulator may do this for a variety of reasons. A utility can respond to some disallowances by choosing not to incur those costs, others may be unavoidable. As a result, unless offsetting cost reductions can be found, the achieved ROE will be lowered.
- **Market Conditions** - if a utility files a new rate case, the new allowed ROE may be below the current allowed ROE as financial market conditions may have changed. As such, a utility that appears to be underperforming the allowed ROE and files a new rate case may not succeed in increasing revenues.

Under most rate plans, to the extent that a utility earns a ROE in excess of the allowed return, the excess earnings are shared with customers by a specified ratio. Performance under certain rate plans is subject to service performance type targets (for example, service quality standards including among other things reliability levels, customer satisfaction levels and safety) that vary among various rate plans. Many of these service standards have penalties associated with them if certain specified minimum standards are not met.

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

### ***Features of NGNA's Rate Plans***

The objectives of NGNA's rate case filings are to make sure that NGNA has the right cost of service with the ability to earn a fair and reasonable rate of return, while providing safe, reliable and economical service to its customers. To achieve these objectives and to reduce regulatory lag, NGNA's rate plans often include provisions such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups, and pension and other post-employment benefit ("**OPEB**") true-ups, separately from base rates. These terms are explained below in the summary rate table under the heading "*Summary of U.S. price controls and rate plans as at March 2018*".

The U.S. regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the applicable state and federal regulatory commissions. Utilities submit formal rate filings ("**rate cases**") to the relevant state regulator when additional revenues are necessary to provide safe, reliable services to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission, at the commission's own discretion or as required by state law. The rate case is litigated with parties representing customers and other interests. In the states in which NGNA operates, a rate case proceeding can take 9 to 13 months for the state regulatory commission to render a final rate decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Even in such cases where a multi-year plan has been approved, once the plan expires, rates typically remain in effect until a request is made to change them. Unlike the state processes, at the FERC there is no specified timeline or defined process for adjudicating a rate case. The FERC allows rates to be put in place before a final decision is reached, but typically makes a final decision retroactively when the case is completed, however, a refund may be required if the outcome is unfavourable.

NGNA has three electric distribution operations (upstate New York, Massachusetts, and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, two in Massachusetts, and Rhode Island). Each operating company has a set of distribution rates for service and transmission rates for its transmission operations. NGNA currently has four sets of electricity rates covering its electric distribution operations and six sets of gas rates covering its natural gas distribution operations. Transmission electricity services in upstate New York continue to be subject to a bundled or combined rate (i.e. transmission and distribution) that is billed to end use customers. In New England, retail transmission rates reflect the recovery from NGNA's end use customers of wholesale transmission charges assessed to NGNA's electricity distribution companies. Wholesale rates for NGNA electricity transmission network in New England and New York for its Long Island generation business are subject to the FERC approval.

NGNA bills its customers for their use of electricity and gas transportation and delivery services. In addition to the customer transportation and delivery service charges, the customer bills typically comprise a commodity charge (i.e. electricity and or natural gas commodity costs). With the exception of residential gas customers in Rhode Island, NGNA customers are allowed to select an unregulated competitive supplier for the supply component of electricity and gas utility services. A substantial proportion of NGNA's costs, in particular electricity and gas commodity purchases for its customers, are pass-through costs, meaning they are fully recoverable from its customers. These pass-through costs are recovered through separate charges to customers which are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over or under-recovery of these costs is returned to, or recovered from, NGNA's customers.

Gas and electricity delivery rates are established from a revenue requirement or cost of service equal to the utility's total cost of providing distribution or delivery service to its customers as approved by the

commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base. The final revenue requirement and rates for service are ultimately approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12-month period of operations, referred to as a test year.

Each state regulatory commission has its own rules and standards for adjustments to the rate case test year and may include forecasted capital investments and forecasted operating expenses. These adjustments are intended to arrive at the total costs expected in the first-year new rates will be in effect.

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

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

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

### **Regulatory Matters – summary of U.S. price controls and rate plans as at 31 March 2018**

The chart below provides a summary of NGNA's rate plans as at 31 March 2018 and the progress that businesses have made on these regulatory principles. NGNA continues to work towards implementing these regulatory principles across its U.S. business.

## Summary of US price controls and rate plans

		2014	2015	2016	2017	2018	2019	2020	Rate base (\$1 Mar 2018)	Equity-to-debt ratio	Allowed return on equity	Achieved return on equity (\$1 Mar 2018)	Revenue decoupling <sup>†</sup>	Capital tracker <sup>‡</sup>	Commodity-related bad debt true-up <sup>§</sup>	Pension/OPEB true-up <sup>¶</sup>
<b>New York Public Service Commission</b>	Niagara Mohawk <sup>1</sup> (upstate, electricity)			◆		●			\$4,980m	48:52	9.0%	8.8%	✓	P	P	✓
	Niagara Mohawk (upstate, gas)			◆		●			\$1,163m	48:52	9.0%	7.9%	✓	P	P	✓
	KEDNY (downstate) <sup>2</sup>	◆			●				\$3,004m	48:52	9.0%	9.0%	P	P	P	✓
	KEDLI (downstate) <sup>3</sup>					●	◆	●	\$2,346m	48:52	9.0%	10.1%	P	P	P	✓
<b>Massachusetts Department of Public Utilities</b>	Massachusetts Electric/Nantucket Electric			●					\$2,448m	50:50	9.9%	9.0%	✓	P	✓	✓
	Boston Gas					●			\$2,024m	50:50	9.75%	7.1%	✓	P	✓	✓
	Colonial Gas					●			\$455m	50:50	9.75%	4.7%	✓	P	✓	✓
<b>Rhode Island Public Utilities Commission</b>	Narragansett Electric					●			\$737m	49:51	9.5%	5.6%	✓	✓	P	✓
	Narragansett Gas					●			\$742m	49:51	9.5%	8.4%	✓	✓	P	✓
<b>Federal Energy Regulatory Commission</b>	Narragansett								\$718m	50:50	10.57%	11.5%	n/a	✓	n/a	✓
	Canadian Interconnector								\$30m	100:0	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power								\$1,661m	66:34	10.57%	11.0%	n/a	✓	n/a	✓
	Long Island Generation								\$408m	47:53	9.9%	13.5%	n/a	✓	n/a	✓

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

- |— Rate filing made
- New rates effective
- ◆ Rate plan ends
- Rates continue indefinitely
- Multi-year rate plan
- ✓ Feature in place
- P Feature partially in place

<p>†<b>Revenue decoupling:</b> A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.</p>	<p>‡<b>Capital tracker:</b> A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.</p>
<p>§<b>Commodity related bad debt true up:</b> A mechanism that allows a utility to reconcile commodity related bad debt to either actual commodity related bad debt or to a specified commodity related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.</p>	<p>¶<b>Pension/OPEB true up:</b> A mechanism that reconciles the actual non-capitalised costs of pension and other post-employment benefits and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.</p>

For more detailed information regarding updates to the NGNA utility business rate plans provided in the table above and the impact of the Tax Cuts and Jobs Act of 2017 (“**Tax Act**”) see the rate information provided in the section entitled “*Regulatory Matters and Rate Plans*” and a general discussion of Tax Act impact in the section entitled “*Impact on Rates Under US Tax Act*”.

### Regulatory Matters and Rate Plans

Below are summaries of significant developments in rate filings and the regulatory environment during the 2018/19 fiscal year. Following the final stabilisation upgrade to NGNA's new financial systems and the availability of 12 months of historical test year data from those financial systems, NGNA's utility businesses concluded a first round of full rate case filings in fiscal year 2017/18, with a final rate case

decision for MECO in September 2016 followed by approval of three-year rate plans for KEDNY and KEDLI in December 2016.

In fiscal year 2017/18, NGNA made a second round of full rate case filings with NIMO (electric and gas) in April 2017, its Massachusetts Gas Businesses in November 2017, and its Rhode Island utility business (NECO) (electric and gas) also in November 2017. A joint proposal, setting forth a three-year rate plan for NIMO was approved by the NYPSC in March 2018 (see "*Regulatory Matters — Summary of U.S. price controls and rate plans as at 31 March 2018*"), the Massachusetts Gas Businesses rate case was approved by the MADPU in an order issued in September 2018 and NECO's rate plan was approved by the RIPUC in a decision issued in August 2018 (see "*Massachusetts*" below). In November 2018, NGNA's electric business, MECO, filed a rate case filing that is anticipated to be reviewed by the MADPU during fiscal year 2019 with a final order anticipated in the third quarter of 2019. The approved rate proposals to date are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in NGNA's US electric and gas distribution activities.

The objectives of NGNA's rate case filings are to ensure that NGNA's businesses have the right cost of service with the ability to earn a fair and reasonable rate of return, while providing a safe and reliable service to customers. In order to achieve these objectives and to reduce regulatory lag, NGNA has been requesting structural changes to its rate plans, such as revenue decoupling mechanisms, capital investment recovery mechanisms, commodity related bad debt true ups, and pension and OPEB true ups, separately from base rates. These terms are more fully explained above under the heading "*Summary of U.S. price controls and rate plans as at 31 March 2018*".

### **Massachusetts**

*Pending Massachusetts electric rate case (including Nantucket):* On 15 November 2018, NGNA filed a five-year rate plan for its Massachusetts electric business to take effect from 1 October 2019. The rate case filing requests an annualised net increase in distribution revenue of approximately \$70 million (net of \$62 million of reconciling charges which have been moved into base rates). As part of the filing, National Grid is proposing a new Performance Base Rate ("**PBR**") plan to support the progression towards clean energy goals, meet its public service duties (safety, reliability, customer service) and create stronger incentives for cost efficiency. The PBR plan will link annual revenue increases to inflation. The five-year performance based framework would allow for significant improvement in stability and revenues over the term of the rate plan and allow longer periods between rate cases. The key elements of the five-year pending rate case includes but is not limited to the following:

- requested ROE of 10.5 per cent. on a 53 per cent. equity capital structure;
- additional annual revenue requirement of approximately \$70 million to cover increased operating costs and investments;
- requested ROE will result in an average net bill increase of approximately 2.6 per cent. for the typical residential customer;
- incremental operating expenses of \$50 million;
- annual capex investment recovery mechanism of approximately \$300 million annually;
- the existing capital tracker will phase out and capital expenditure will be funded under a PBR mechanism in the future;
- proposal for a 5-year, \$167 million investment in electric vehicle charging infrastructure increasing the number of charging ports by over 17,000 in Massachusetts. The proposal will be recovered outside of base rates in the existing reconciling mechanism if approved; and
- proposal to invest \$50 million in utility scale energy storage with ownership of 14 megawatts.

*Massachusetts Gas Businesses* –NGNA filed a rate case for its Massachusetts Gas Businesses with the MADPU on 15 November 2017 with new rates effective on 1 October 2018. This is the first-rate case filing for Boston Gas and Colonial Gas since 2010 to update the Massachusetts Gas Businesses rates to more closely align revenues with the cost of service and bring their earned ROEs closer to the allowed ROE. NGNA's filing was made prior to the passage of the Tax Act, which lowered the US corporate income tax rate from 35 per cent. to 21 per cent. The proposed revenue increase requested prior to the Tax Act was \$178 million for Boston Gas and \$36 million for Colonial Gas. The change in the corporate income tax rate reduced these amounts in the rate filing by approximately \$29 million and \$7 million for Boston Gas and Colonial Gas, respectively. In addition, significant tax liabilities to National Grid's US Treasury organisation that have been recorded at the 35 per cent. tax rate will now be paid at the lower 21 per cent. tax rate creating a significant benefit that will be returned to customers. NGNA requested that the return of this benefit to customers is made over a similar time period that the actual benefits are to be earned.

On 29 September 2018, MADPU issued a rate order for the Massachusetts Businesses providing for new gas distribution rates effective on 1 October 2018 with billing to commence on 1 November 2018 to minimize customer impacts. The key elements of the MADPU's September 2018 order are as follows:

- allowed ROE of 9.5 per cent. on a 53 per cent. equity capital structure;
- revenue increase of \$56 million (this outcome was adjusted by \$44 million primarily to reflect the lowered US corporate tax rate under the Tax Act, resulting in a new revenue increase of \$12 million);
- updated rate base to include all previously unremunerated investments;
- incremental operation and maintenance of \$91 million, excluding pension funding;
- capital investment of over \$413 million, including \$257 million which will be recovered under the existing "Gas System Enhancement Plan" (i.e. the leak prone pipe capital tracker);
- amortization and recovery of protected accounts receivable greater than 360 days (\$20.3 million to be collected over five years);
- funding to modernize the IT infrastructure that supports the core gas distribution operating capabilities;
- fully reconciling cost recovery of the Massachusetts Gas Business allocation of the \$458 million gas business enablement program;
- returning excess accumulated deferred income taxes associated with the Tax Act; and
- enhanced property tax recovery.

*Capital investment programmes – Electricity and Gas:* The cap on the annual capital investment recovery mechanism for the electricity business was increased from \$170 million to \$249 million, effective from 1 October 2016 per MADPU rate order described above. With respect to the Massachusetts gas business, legislation in Massachusetts grants NGNA greater ability to cost-effectively accelerate the replacement of leak prone pipe by receiving concurrent cost recovery for eligible capital investments. NGNA continues to recover costs associated with its pre-existing leak prone pipe replacement programme outside of base rates until the next rate case.

### **New York**

*NGNA's Upstate New York Utility 2013 rate plan.* Effective from 1 April 2018, NGNA's upstate New York utility, NMPC, began a new three-year rate plan. This rate plan, similar to previous rate plans, provides for rates that are based on NMPC's costs of service and regulatory asset base and provides for a return on capital expenditures and a recovery of commodity costs and other pass-through costs prudently

incurred. Under the rate plan, NMPC is permitted a rate base at \$4,980 million as of 31 March 2018 for NGNA's electric business and a rate base of \$1.16 billion as of 31 March 2018 for NGNA's gas business. The rate plan is based on an ROE of 9.0 per cent. and a capital structure of 48 per cent. equity and 52 per cent. debt.

*NGNA's Downstate New York Utilities rate plans – Brooklyn Union (KEDNY) and Gas East (KEDLI):* In December 2016, the NYPSC adopted the terms of a Joint Proposal (the "**Joint Proposal**") filed by KEDNY and KEDLI, regulatory staff, and several stakeholders, that provides a three-year rate plan for the downstate New York gas companies, effective 1 January 2017. The Joint Proposal includes revenue increases over each of the three years of the rate plan, an allowed 9 per cent. ROE for both companies, a 48 per cent. equity ratio and a significant capital programme of \$3 billion in total.

In addition to the revenue increases, the rate plan maintains tracker and true-up mechanisms for property taxes, commodity-related bad debt, and pension/OPEBs, reconciling mechanisms, for city/state construction-related costs and SIR recovery surcharge/tracker mechanisms, a gas safety and reliability surcharge to recover the costs of incremental leak prone pipe ("**LPP**") replacement and leak repairs, and incentive opportunities. The rate plan also includes a significant capital programme over the three-year period, totalling \$3 billion. This comprises \$1.9 billion in KEDNY and \$1.1 billion in KEDLI to modernise gas infrastructure and enhance safety and reliability with accelerated LPP replacement.

For more detailed information regarding the key elements of NGNA's upstate and downstate New York utilities rate plans see also the section above entitled "*Regulatory Matters — summary of U.S. price controls and rate plans as at 31 March 2018*".

### **Rhode Island**

*Rhode Island gas and electric rate case:* On 27 November 2017, NGNA filed a one-year rate case for its Rhode Island gas and electric businesses to take effect from 1 September 2018. The rate case filing requests an annualised net increase in distribution revenue of approximately \$41.3 million for the electric business and \$30.3 million for the gas business. The filing also requested an increase in annual base rate funding of the storm fund mechanism from \$4.3 million to \$14 million, and a 14-month extension of the incremental funding to address the storm fund's deficit, created by weather events occurring through February 2015. The filing was based on a ROE of 10.1 per cent. and a capital structure of 51 per cent. equity and 49 per cent. debt.

On 24 August 2018, RIPUC issued an approval of the settlement agreement for Rhode Island gas and electric which supplies utility service to over 750,000 of NGNA's New England gas and electric distribution customers. The order provided that the new distribution rates for Rhode Island gas and electric would increase for the first time since 2013 and became effective 1 September 2018. The key elements of the settlement agreement are as follows:

- 3-year rate plan framework that provides for electric distribution revenue to increase by approximately \$19 million, \$8 million, and \$4 million, annually commencing September 1, 2018, and gas distribution revenue to increase by approximately \$7 million, \$6 million, and \$4 million annually commencing September 1, 2018;
- allowed ROE of 9.275 per cent. based on a 51 per cent. equity capital structure;
- requested ROE will result in an average net bill increase of approximately 4 per cent. for the typical residential customer;
- annual capital investment of \$240 million will continue to be recovered under the state's gas and electric infrastructure, safety and reliability ("**ISR**") plans;
- cost recovery mechanism for future "Advanced Metering" and "Grid Modernization" proposals that are approved by the RIPUC during the three-year rate plan;
- full reconciling costs recovery for the "Gas Business Enablement Programme";



- Rhode Island regulations also allows for pro forma and normalizing adjustments to test year data for the rate settlement that include forecasts for costs expected in a future rate year;
- introduces new upside only performance incentive mechanisms of 30-50bps to the allowed ROE and new electric capex incentives (upside and downside); and
- funding for 206 new full-time positions over the next three years.

*Rhode Island fiscal year 2018 electric and gas ISR plans:* State law provides NGNA's Rhode Island gas and electricity operating divisions within Rhode Island with rate mechanisms that allow for recovery of capital investment, including a return, and certain expenses outside base distribution rate proceedings through the submission of annual ISR plans.

The RIPUC approved the fiscal year 2019 electric ISR plan which encompasses a \$102.8 million spending programme for capital investment and \$10.8 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The RIPUC approved the fiscal year 2019 gas ISR plan which encompasses \$106.7 million for capital investment and incremental operation and maintenance expense for the hiring and training of additional personnel to support increases in leak-prone pipe replacement.

### **FERC**

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

*Complaint on New England transmission allowed ROE:* In September 2011, December 2012 and July 2014 and April 2016, a series of four complaints were filed with the FERC against certain transmission owners, including NGNA's New England electricity transmission business, to lower the base ROE from the FERC approved rate of 11.14 per cent. prior to the first complaint.

FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base ROE to 10.57 per cent. A number of parties, including NGNA, appealed FERC's order on the first complaint to US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC, requiring FERC to reconsider the methodology it adopted in its order. On 16 October 2018, the FERC issued a preliminary order responding to the remand which modified the methodology for calculating base ROE's and recommended a base ROE of 10.41 per cent. and an overall cap of 13.08 per cent. including incentives. The FERC ordered that initial paper briefs be filed by 11 January 2019 and reply briefs be filed by 8 March 2019 include how the new methodology affects the first complaint as well as complaints two, three and four after which the FERC will issue final orders. It is too early to determine when or how FERC will decide the four pending ROE complaints against NGNA considering the court's decision.

*National Grid LNG LLC:* On 1 April 2016, NGNA filed an application seeking FERC approval for an approximately \$180 million liquefaction facility at the Providence, Rhode Island, LNG plant. The FERC issued an order in October 2018 which included a certificate for construction of the liquefaction facility. The initial expected in-service date provided in the April 2016 filing is mid to late 2020. Rates for the new liquefaction service will be cost-based formula rates charged to customers who opt to take liquefaction service.

*Formula rate transparency 206 proceeding:* On 28 December 2015, FERC initiated a proceeding under Section 206 of the Federal Power Act. The FERC found that the ISO-New England ("ISO-NE") Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The FERC found that ISO-NE's Tariff lacks adequate transparency and challenged procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ("NETOs").

In addition, the FERC found that the NETO's current Regional Network Service ("RNS") and Local Network Service ("LNS") formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. The FERC explained that the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. Accordingly, the FERC established hearing and settlement judge procedures. Several parties are active in the proceeding including FERC staff, various consumer interested consumer parties, the New England States Committee on Electricity and several municipal light departments. The parties have settled on a revised set of formula rate protocols addressing FERC's concerns and are currently engaged in settlement negotiations and have conducted several settlement conferences at FERC relative to RNS and LNS rates. The FERC settlement judge certified the settlement in October 2018 and recommended the FERC approve it.

### **Regulatory Audits**

Under the various state and federal laws, the regulators are permitted to conduct routine audits of various aspects of public utility's activities. NGNA is subject to these operational audits on a regular basis including the following audit proceedings for its utility subsidiaries:

#### **Massachusetts**

Under the various state and federal laws, regulators are permitted to conduct routine audits of various aspects of public utility activities. MECO is subject to operational audits on a regular basis, though MECO is not subject to any material electricity operational or regulatory audits at this time.

*2018 MADPU Gas Audit:* The MADPU initiated a state-wide audit of the gas distribution utilities in Massachusetts including NGNA's Massachusetts Gas Businesses. The focus areas of the audit are management systems, risk management programs, integrity (asset) management programs, operations and maintenance procedures, construction practices and incident/crisis management. The initial audit information requests will start in mid-December 2018 with audit meetings to be conducted in 2019.

#### **New York**

*2018 New York Management Audits:* In 2018, the NYPSC initiated a comprehensive management and operations audit of NGNA's New York-regulated businesses (Brooklyn Union, Gas East and NMPC). New York law requires periodic management audits of all utilities at least once every five years. NGNA's New York-regulated businesses last underwent a New York management audit in 2014 and 2015, when the NYPSC audited NGNA's New York gas businesses. The NYPSC selected Saleeby Consulting and River Consulting Group to conduct the audit. The audit will be process-oriented and forward-looking and will present opportunities to obtain feedback on how to improve service to customers and meet regulatory expectations. Areas of focus will likely include the traditional audit areas of corporate governance, budgeting and finance, customer, work management and long-term planning, as well as organization design, information systems and gas safety.

*Operations Data Audit:* In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability and gas safety data reported by the investor-owned electric and gas utilities operating in New York, NGNA's New York-regulated businesses. On 19 December 2013, the NYPSC selected Overland Consulting to conduct the audit, which commenced in February 2014. On 20 April 2016, the NYPSC released the third-party audit report publicly and adopted the majority of recommendations in the report. The audit report found that NGNA, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. On 13 March 2018, the NYPSC Staff filed a letter indicating that NGNA had implemented all applicable recommendations and therefore the NYPSC was closing the audit.

*Staffing Audit:* In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and the use of contractors for the core utility functions of the investor owned electric and gas utilities operating in New York, including NGNA's other New York-regulated businesses. The focus of the audit is on electricity and gas operations and network strategy functions, and includes a review of staffing levels, resource planning, work management, overtime levels, contractor use and succession planning. NGNA filed its implementation plan on 31 March 2017. On 15 December 2017, the NYPSC issued an order approving the implementation plan without modification.

### **Rhode Island**

Under the various state and federal laws, regulators are permitted to conduct routine audits of various aspects of public utility activities. NECO is subject to operational audits on a regular basis, though NECO is not currently subject to any material operational or regulatory audits at this time.

### **FERC**

*FERC financial audit of National Grid USA and affiliates:* On 24 November 2015, FERC commenced a financial audit of National Grid USA, including its service companies and other affiliates, which covers the period from 1 January 2013 to the present. The audit will evaluate compliance with the FERC's accounting, record keeping and reporting requirements as well as interactions among the service companies and affiliated operating companies. FERC expects to complete its field work by the end of 2018 and issue a final audit report by early to mid-2019.

## **Regulatory Initiatives and Programmes**

### **Massachusetts**

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

*Gas system enhancement programmes (GSEP):* On 5 May 2017, MADPU approved NGNA's recovery of approximately \$50.6 million, related to \$241 million of anticipated investments in 2017 under an accelerated pipe replacement program, through rates effective from May 2016 to April 2018. However, due to the application of the GSEP revenue cap, NGNA's Massachusetts Gas Businesses are required to defer recovery of an additional \$5.5 million of the 2017 revenue requirement until NGNA has room under the GSEP revenue cap to recover the deferred amount, or in the next rate case that covers the period of investment.

### *Green Communities Act - Act to Promote Energy Diversity Act Amendment*

In 2016, the Massachusetts legislature through the Act to Promote Energy Diversity, amended the 2008 "Green Communities Act" (the "**GCA**") to require all electric distribution companies in Massachusetts ("**EDCs**"), including NGNA's Massachusetts electricity businesses, MECO and Nantucket ("**NGNA EDCs**"), to jointly solicit approximately 9.45 TWh of clean energy and any transmission required to bring the energy to Massachusetts ("**Section 83D**"). In response to Section 83D, representatives from NGNA

EDCS, along with representatives from other EDCs (overseen by the Massachusetts Department of Energy Resources and an independent evaluator) issued a Request for Proposal (“**RFP**”) on 31 March 2017 soliciting up to 9.45 TWh of clean energy (i.e. land based, wind, hydro and solar). At the conclusion of the RFP process NGNA EDCs negotiated with the finalist and entered into a 20-year Power Purchase Agreements (“**PPA**”) and 20-year Transmission Service Agreements (“**TSA**”). The terms and conditions of both the PPA and TSA require the approval of the MADPU and the terms and conditions of the TSA must also be approved by the FERC. Once the applicable regulatory approvals are obtained and the projects are constructed and placed in service, the commodity costs associated with the PPA and the transmission costs associated with the TSA will flow through the delivery section of the customers retail bill, such that MECO and Nantucket will recover 100 per cent. of these costs regardless of whether its transportation and delivery customers secure their electric commodity from a third party competitive energy service provider. When seeking regulatory approval MECO and Nantucket will also seek up to 2.75 per cent. compensation as allowed. The notional cost for NGNA’s EDC businesses combined share of the energy and transmission components is approximately \$7 billion over the 20 year life of the PPAs and TSAs. Once approved by the MADPU, all of these costs will flow through NGNA’s EDC’s retail electric rates on a non-by-passable basis. For the purposes of this section, the phrase “notional costs” shall mean gross payments due to the applicable PPA counterparty at their estimated capacity factor.

The EDCs issued an RFP on 29 June 2017 seeking to procure a total of 400 MW of offshore wind energy generation, but allowing bidders to offer proposals for larger scale projects up to approximately 800 MW (“**Offshore Wind RFP**”). At the conclusion of the Offshore Wind RFP process, NGNA EDCs negotiated with the finalist and entered into 20-year Power Purchase Agreements (“**PPAs**”). The terms and conditions of the PPAs require the approval of the MADPU. Once the applicable regulatory approvals are obtained and the projects are constructed and placed in service, the commodity costs associated with the PPA and the transmission costs associated with the TSA will flow through the delivery section of the customers retail bill, such that MECO and Nantucket will recover 100 per cent. of these costs regardless of whether its transportation and delivery customers secure their electric commodity from a third party competitive energy service provider. When seeking regulatory approval MECO and Nantucket will also seek up to 2.75 per cent. compensation as allowed. The notional costs of the PPAs is estimated to be approximately \$2.6 billion.

*Solar Initiative and investment legislation:* NGNA’s Solar Phase II initiative in Massachusetts (acting through its subsidiaries) installs advanced solar generating facilities on sites it believes will bring the most benefit to the electric distribution system and to customers. Approved by MADPU in 2014, the initiative allows NGNA to install up to 21 MW of utility-owned solar capacity. Each year, NGNA recovers its expenses and a reasonable rate of return from customers in Massachusetts through a solar cost adjustment factor, which is added to the electric distribution rate, net of revenues earned from the solar assets. Legislation enacted in April 2016 extended NGNA’s ability to construct, own and operate a total of up to 35 MW of solar facilities within its electricity service territory if the facilities were approved by MADPU by 31 December 2016 and constructed by 31 December 2017. A 2017 budget bill further amended the construction deadline to 31 December 2019. To help meet Massachusetts’ clean energy goals of attaining 20 per cent. of the state’s electricity through renewables by 2020, NGNA has been developing solar generation through a multiple phase program. Phase 1 consisted of 5 MW across 5 sites and was completed in 2011. Phase 2, which is underway, has added almost 16 MW of solar capacity to date, and is scheduled to be completed in 2019. In 2016, National Grid received approval from MADPU for Phase 3, to add a further 14 MW of solar capacity, and it expects to begin purchasing the fully constructed solar arrays during 2019.

## **New York**

### *Energy Efficiency and Renewable Energy Programs*

*Reforming the Energy Vision (“**REV**”):* In April 2014, the NYPSC instituted the REV proceeding, which considers options for a new regulatory and operational model for electricity utilities that includes a greater emphasis on incorporating distributed energy resources (“**DER**”) via market mechanisms. The

NYPSC envisions a new role for utilities as distributed system platform (“**DSP**”) providers who create markets for DER and more fully integrate DER in distribution system operations and planning. The REV proceeding’s objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability, and resiliency; and cleaner, more diverse electricity generation. In February 2015, the NYPSC issued an order addressing various technical, policy, and market design issues; and in May 2016, the NYPSC issued an order (“**Track Two Order**”) addressing REV rate-making issues, including opportunities for outcome-based shareholder incentive mechanisms, market-based earnings, changes to rate design, DER compensation and the rate-making process. NGNA’s updated first five-year distributed system implementation plan was filed in July 2018 and identifies incremental investments in utility infrastructure necessary for implementation of the DSP role and greater DER integration.

*Advanced Metering Infrastructure:* In November 2018, NMPC filed an advanced metering infrastructure (“**AMI**”) implementation plan with the NYPSC, including a capital investment request for \$650 million, which will be subject to final review and approval by the NYPSC. If approved by the NYPSC, such capital investment would be used to install 1.7 million electric AMI meters and 640,000 gas modules across NGNA’s business between 2021 and 2024. AMI is a smart meter technology that offers customers greater control over their energy use, and provides enhanced capabilities for system modelling, load forecasting and capital investment planning.

### **Rhode Island**

*Rhode Island Renewable Energy Growth Programme (“**RE Growth Programme**”):* In June 2014, the Rhode Island legislature enacted legislation pursuant to the Rhode Island General Laws under the Clean Energy Jobs Programme known as the RE Growth Programme to facilitate and promote installation of distributed renewable energy generation. The RE Growth Programme is available to eligible renewable distributed generation (“**DG**”) projects, and enables customers to sell their generation output under long-term tariffs at fixed prices. In November 2014, NGNA filed with RIPUC a proposal to implement the RE Growth Programme, which replaces the DG standard contracts programme and will create a long-term feed-in-tariff-based (“**FIT**”) programme to support a total of 160 MW of renewable distributed generation projects over a five-year period. The tariff payments for the RE Growth programme projects are governed by the ceiling prices, which are set by the RI Distributed Generation Board and approved by the RIPUC. Large projects are selected through competitive solicitations, and smaller projects are selected through applications on a first-come-first-served basis. The current programme provides payments to renewable energy projects under long-term tariffs for terms of 15 or 20 years. RIPUC approved the new programme at an open meeting on 10 February 2017. Under Rhode Island law, NGNA can recover the incremental costs associated with the programme and is entitled to earn incentives equal to 1.75 per cent. of the gross payments made under the FIT. In June 2017, new legislation was passed which expands the RE Growth Programme for an additional ten years after the fifth programme year, with an annual target of 40 MWs for each year of the ten-year period.

*Rhode Island Long-Term Contracting Standard:* State law requires NGNA to annually solicit for up to 90 MW of long-term contracting capacity from newly developed, renewable energy resources. On 3 August 2015, NGNA filed a Power Purchase Agreement (“**PPA**”) with the RIPUC for the purchase of renewable energy from Copenhagen Wind, LLC. The PPA has a purchase price of \$78.75 per MWh, escalating by 2 per cent. per year for a term of 15 years. NGNA selected the Copenhagen Wind Farm Project, a 79.9 MW nameplate capacity land-based wind project located in Denmark, NY, in its fourth competitive solicitation for long-term contracts for newly developed renewable energy projects. The project is projected to reach commercial operation by the end of 2018. The RIPUC approved the PPA by written order on 6 November 2015. Once the project achieves commercial operation, NGNA will be entitled under Rhode Island law to receive financial remuneration equal to 2.75 per cent. of the actual annual contract payments.

In late 2016, NGNA learned that a previously-approved PPA for the Bowers Wind Project would not be fulfilled. The Bowers Wind Project, which accounted for approximately 18.3 MW of the minimum long-

term contracting capacity, failed to obtain a permit from the Maine Department of Environmental Protection, which was required to construct and operate the project by the critical milestone date of 31 December 2016. The developer did not elect to further extend the critical milestone under the PPA. Accordingly, NGNA terminated the PPA by written notice on 23 January 2017. Subsequently, NGNA procured and executed PPAs for eight projects pursuant to the New England Clean Energy Request for Proposal, a joint, multi-state solicitation process, which was released on 12 November 2015. On 1 November 2017, NGNA filed the PPAs with the RIPUC for approval under the Long-Term Contracting Standard ("**LTC Standard**") to backfill its obligations as a result of the termination of the Bowers Wind Project. Following approval on 9 February 2018, these PPAs, in total, will satisfy approximately 12.9 MW of the remaining contracting capacity under the LTC Standard.

*Changing distribution system and modernisation of rates:* On 3 March 2016, RIPUC opened a docket to investigate the modernisation of rates in light of the changing electric distribution system, including the costs and benefits of distributed energy resources. The RIPUC conducted an RFP process to retain a consultant for this docket and selected Raab Associates to facilitate the stakeholder working group process. The consultant, with input from the stakeholder group, developed a final report that the RIPUC accepted at an open meeting on 4 May 2017. The RIPUC also adopted the goals, rate design principles, and benefit-cost framework set forth in the report, which apply to all parties to cases that affect NGNA's electric rates. On 27 October 2017, the PUC finalized a Guidance Document that sets forth the RIPUC's current approach to, or interpretation of, the goals, principles, and values of matters involving NGNA.

*Power Sector Transformation ("**PST**") Initiative:* In response to Governor Gina M. Raimondo's request to the RIPUC, the Office of Energy Resources (the "**OER**") and the Division of Public Utilities and Carriers (the "**Division**") to design a new regulatory framework for Rhode Island's electric system, the Division and OER initiated the Power Sector Transformation Initiative, a collaborative stakeholder process to examine state policy and develop actionable plans in four strategic areas of power sector modernization and clean energy integration: Utility Business Model, Distribution System Planning, Beneficial Electrification, and Grid Connectivity and Functionality. Following an initial public meeting on 6 April 2017, the Division and OER held a series of technical meetings featuring panel discussions regarding each of the above four workstreams. NGNA and other stakeholders also submitted comments in response to questions from the Division and OER on the four workstream topics. On 16 October 2017, the Division and OER circulated draft principles and recommendations for each of the four workstreams. NGNA and other stakeholders discussed the draft reports at the 23 October stakeholder meeting and subsequently submitted written comments on the draft reports. The Division distributed the final report in November 2017, which consisted of several recommendations, which included, among others, a multi-year rate plan and budget with a revenue cap to incentivise cost savings, a pay for performance model through development of performance incentive mechanisms for system efficiency, distributed energy resources, and customer and network support, cyber-security briefings, advanced metering functionality, customer and third party data access plans, locational incentives, electric vehicles and beneficial heating. NGNA has addressed several of the Division's recommendations through the inclusion of proposals in its electric and gas distribution rate case filing that was submitted to the RIPUC on 27 November 2017, such as performance incentive mechanisms. On 7 December 2017, the PUC decided to consider NGNA's PST proposals in a separate docketed proceeding from the rate case filing. The PST proposals were ultimately included in the settlement agreement agreed to by the parties and approved by the RIPUC on 24 August 2018.

*Rhode Island Affordable Clean Energy Security Act ("**ACES**"):* In 2014, the Rhode Island Legislature enacted the ACES, establishing a process for the Office of Energy Resources ("**RI OER**") to work with energy officials throughout the New England region to identify cost-effective energy infrastructure projects using co-ordinated, competitive procurement processes. The RFP considered and allowed for other New England states to participate in the Massachusetts selected project if such participation has positive or neutral impact on Massachusetts ratepayers. While NECO is not statutorily required to enter into such a power purchase agreement ("**NECO PPA**"), it voluntarily agreed to do so to support Governor

Gina M. Raimondo's goal to increase the amount of clean energy in the state to a total of 1,000 MW of projects by the end of 2020.

Once the applicable regulatory approvals are secured from the RIPUC, the costs associated with the NECO PPA will flow through the delivery section of the retail bill, such that NECO will recover of these costs regardless of whether its transportation and delivery customers secure their electric commodity from a third party competitive energy service provider. In Rhode Island, ACES is silent on remuneration for contracts such as the NECO PPA, but NECO will request remuneration in its regulatory filing with RIPUC for approval of its NECO PPA costs. The notional costs of the NECO PPA is estimated to be approximately \$3.2 billion. For the purposes of this section the phrase "notional costs" shall mean gross payments due to the applicable PPA counterparty at their estimated capacity factor. NECO is in the process of negotiating and finalizing another voluntary off-shore wind power purchase agreement that was identified or selected as contemplated by ACES that will be subject to applicable RIPUC review and approvals.

### **FERC**

*FERC Order 1000*: Issued in 2011, Order 1000 was FERC's major policy order intended to foster regional and inter-regional transmission planning, address transmission needs driven by public policy requirements and increase competition in the electric transmission industry. In 2014 and 2015, FERC issued orders on filings made by the New York and New England system operators (i.e. ISOs) to comply with Order 1000 and continue to implement a package of reforms addressing transmission planning and cost allocation. A federal court upheld key provisions of Order 1000 against legal challenges in an August 2014 decision. Policies to comply with Order 1000 have been in effect in New York since January 2014 and became effective in New England in May 2015. The competitive transmission planning processes instituted under Order 1000 have opened NGNA's service territory to competition from non-incumbent transmission developers and also created opportunities for NGNA to compete for transmission projects outside of NGNA's current geographic footprint.

In the first applications of the Order 1000 planning and competitive solicitation processes in New York or New England, NYPSC has identified two transmission needs in New York driven by public policy goals. The first, in western New York, is intended to relieve congestion and to maximise hydropower and Ontario imports. In December 2015, NGNA submitted two competitive transmission proposals for projects to address the need in western New York. The project selection processes for this competitive transmission solicitation was completed in 2017, and neither of NGNA's proposals were selected. In addition, NYPSC identified a transmission need to allow greater flow of power from upstate to downstate New York. Competitive proposals to meet this transmission need were solicited in February 2016. NGNA submitted a competitive transmission proposal in April 2016, and the project selection process is expected to conclude sometime during the last quarter of fiscal year 2018/19.

### **Recent Developments**

#### **Impact on Rates under US Tax Act**

Tax generally is a pass through for NGNA's utilities in the US. The reduction in the corporation tax rate from 35 per cent. to 21 per cent. under the Tax Act will therefore be significantly beneficial to NGNA's customers as the lower tax rate will be reflected in collection of a lower tax allowance from customers.

NGNA's upstate New York, Massachusetts Gas and Rhode Island utilities were all undergoing rate negotiations at the time that the Tax Act was enacted. NGNA has updated its revenue requests for the prospective portion of the tax collection required under the Tax Act in each of its US utility businesses. These companies represent 48 per cent. of the rate base with a total revenue impact of approximately \$130 million. NGNA's FERC businesses operate under formula rates, and it expects an approximately \$50 million reduction in the year related to these companies, with the full impact being felt in 2018/19.

There are currently underway open generic proceedings in New York and Massachusetts that will address the treatment of any tax savings for customers of NGNA's Massachusetts electricity business

(MECO) and its New York Gas Businesses (KEDNY and KEDLI) until base rates are reset through rate case filings. NGNA through its US utility businesses is working with the various state regulators to develop case by case solutions for NGNA's utility operating businesses. Solutions could include refunds in full prospectively of the tax savings starting as early as the third quarter of fiscal year 2018/19, retention of all or a portion of the savings to address rate stability concerns and use of funds to net against current regulatory assets. NGNA expects the New York and Massachusetts regulatory commissions decisions by the end of fiscal year 2018/19. The lower collections in revenue offset the lower tax charge, so there is no material impact to earnings under IFRS or under US GAAP. NGNA's cash flows will reduce as its US utility businesses are currently in a net operating loss position for the purposes of calculating taxable profits in the US Group. This means that there is no offsetting reduction in cash tax payments.

### *FERC*

On 15 March 2018 the FERC initiated multiple proceedings intended to adjust FERC-jurisdictional rates to reflect the corporate tax changes as a result of the passage of the Tax Act, which lowered the federal income tax rate on corporations from 35 per cent. to 21 per cent. Of the proceedings initiated relevant to NGNA is the Notice of Inquiry ("**NOI**") seeking comments on the effects of the Tax Act on all FERC-jurisdictional rates. This NOI will be used by the FERC to build a record on the tax issues affecting FERC-jurisdictional rates and will be used to determine whether additional action is needed. For further information, see note 11 to the audited financial statements for the years ended 31 March 2018 and 2017 incorporated by reference into this Prospectus.

### *New York*

In response to the Tax Act, the NYPSC issued an Order Instituting Proceeding, which was instituted to solicit comments on the Tax Act implications and places New York utilities on notice of the NYPSC's intent to protect ratepayers' interest and to ensure that any cost reductions from the changes in federal income taxes are deferred for future ratepayer benefit. On 29 March 2018, the NYPSC Staff released its proposal to address accounting and ratemaking related to the Tax Act. Comments on the NYPSC Staff's proposal were filed on 27 June 2018. On 9 August 2018, the NYPSC issued an order that approved NGNA's proposed treatment of the Tax Act benefits. Specifically, the NYPSC agreed that NGNA should be allowed to defer tax savings to the extent not already reflected in rates and the amortization of excess accumulated deferred federal income taxes balances and use the deferred tax benefits as a rate moderator when base rates are next revised.

### ***Labour union and Employment Issues - Massachusetts Gas update***

NGNA continues to negotiate with two of its gas unions in Massachusetts over employment terms and conditions. The two unions represent 1,250 workers from NGNA's US workforce of approximately 16,000 employees. Particular issues include the amount of employee contribution to healthcare and proposals to bring future employees into a defined contribution pension scheme, rather than a defined benefit plan. Over the last few years, NGNA has agreed very similar terms with 16 other unions and is hopeful that it can reach an agreement with these two unions.

The negotiations have been ongoing for several months and as no agreement was reached before the existing contracts expired, NGNA had to implement contingency workforce plans from the end of June 2018. This includes the employment of fully qualified contractors and workers, the use of workers from other parts of the business, increased supervision to ensure safe operation and the establishment of temporary work sites. These activities have ensured that critical work continues safely and that there is minimal disruption to NGNA Massachusetts gas business customers. As a consequence, as of 30 September 2018, National Grid plc has incurred additional costs of approximately £97 million which have been classified as exceptional.

NGNA's objective is to reach a fair settlement that allows its business to deliver vital services at a reasonable cost to customers, minimise any future cost increases and protect the agreements already in place with the other unions. The MADPU has requested that NGNA's Massachusetts Gas Businesses



only undertake mandatory and compliance work. NGNA is currently working to resolve this moratorium, as well as keeping the MADPU informed on the union negotiations.

### **Environmental Regulation**

The ongoing operations and historical activities of NGNA's public utility subsidiaries are subject to various federal, state and local environmental laws and regulations. NGNA's subsidiaries' businesses generate some hazardous and potentially hazardous waste and by-products. Under federal and state laws, potential liability for the historical contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

The federal Environmental Protection Agency ("EPA"), various state environmental protection agencies like the New York State Department of Environmental Conservation, the Massachusetts Department of Environmental Protection, as well as private entities have alleged that certain of NGNA's subsidiaries are a potentially responsible party under state or federal law for a number of sites at which hazardous waste is alleged to have been released. NGNA's public utility subsidiaries are generally responsible for on-site liabilities, and in some cases off-site liabilities, associated with the environmental condition of their current and former assets, regardless of when the liabilities arose and whether they were known or unknown. The most significant liabilities relate to former MGP facilities. As required by the EPA, or an applicable state environmental protection agency, those MGP sites and certain other properties are currently being investigated and remediated, as necessary. Some of NGNA's utility subsidiaries have rate plans generally allowing for recovery of the costs of investigation and remediation of MGP sites.

NGNA believes that the ongoing operations of the subsidiaries, and their approach to addressing conditions at historical sites, are in substantial compliance with all applicable environmental laws and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position because environmental expenditures prudently incurred by NGNA and its subsidiaries are generally recoverable from its customers through a rate recovery mechanism.

### **Litigation**

Through the ordinary course of operations, NGNA and its subsidiaries are party to various litigation, claims and investigations. NGNA does not expect the ultimate resolution of any of these proceedings to have a material adverse effect on NGNA's or the Group's results of operations, cash flows or financial position.

### **Board of Directors**

The Directors of NGNA and their principal activities outside NGNA, are as follows:

<b>Name</b>	<b>Title</b>	<b>Principal activities outside NGNA</b>	<b>Business Address</b>
Ronald Macklin	Director	Senior Vice President U.S. General Counsel, and Director of National Grid USA	40 Sylvan Road Waltham, MA 02451, United States
Margaret M. Smyth	Director	Chief Financial Officer of NGUSA	40 Sylvan Road Waltham, MA 02451, United States
Chris McConnachie	Director	Vice President, Finance Services	40 Sylvan Road Waltham, MA 02451, United States

There are no potential conflicts of interest between the duties to National Grid North America Inc. of each of the Directors listed above and his or her private interests or other duties.

## TAXATION

### United States Taxation

The following is a summary of certain U.S. federal income and estate tax consequences of the ownership and disposition of the Instruments by Non-U.S. Holders (defined below). This summary only addresses initial purchasers of the Instruments at the "issue price" (the first price at which a substantial amount of notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering who are Non-U.S. Holders and will hold the Instruments as capital assets for U.S. federal income tax purposes. This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect. This summary does not cover all aspects of U.S. federal taxation that may be relevant to the acquisition, ownership or disposition of Instruments by particular investors and does not address state, local non-U.S. or other tax laws.

This summary addresses only Instruments that will be treated as debt for U.S. federal tax purposes and does not address Instruments with special features such as a maturity of 30 years or more.

As used herein, the term "Non-U.S. Holder" means a beneficial owner of an Instrument that is, for U.S. federal income tax purposes: (i) an individual who is classified as a non-resident alien; (ii) a foreign corporation; or (iii) a foreign estate or trust.

The term "Non-U.S. Holder" does not include any of the following holders: a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes; certain former citizens or residents of the United States; an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes; a corporation that, for U.S. federal income tax purposes, is treated as either a personal holding company, a controlled foreign corporation, or a passive foreign investment company; or a holder for whom income or gain in respect of the Instruments is effectively connected with the conduct of a trade or business in the United States or is attributable to a U.S. permanent establishment that the holder maintains. Such holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the Instruments.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Instruments, the tax treatment of a partner therein will generally depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences applicable to them and their partners.

THE SUMMARY OF U.S. FEDERAL INCOME AND ESTATE TAX SET FORTH BELOW IS INCLUDED FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING INSTRUMENTS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Under current U.S. federal income and estate tax law, and subject to the discussion of backup withholding and information reporting and FATCA withholding in the following sections:

- (a) Payments of principal, original issue discount ("OID"), and interest by the Issuer or any paying agent to any holder of an Instrument who is a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, provided that, in the case of amounts treated as interest or OID with respect to Instruments with a maturity of more than 183 days, (i) the amount of the payment is not determined by reference to any receipts, sales or other cash flow, income or profits, change in value of any property of, or dividend or similar payment made by, the Issuer or a person related

to the Issuer (a “**Contingent Payment**”), (ii) the Non-U.S. Holder does not actually or constructively own 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, (iii) the Non-U.S. Holder is not for U.S. federal income tax purposes a controlled foreign corporation related, directly or indirectly, to the Issuer through stock ownership, (iv) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code and (v) the Non-U.S. Holder provides a properly completed U.S. Internal Revenue Service (“**IRS**”) Form W-8 to the Issuer or its designated agent. If a Non-U.S. Holder fails to satisfy any of these requirements, payments of interest on the Instruments will be subject to U.S. withholding tax at a rate of 30 per cent. unless the Non-U.S. Holder timely provides a properly completed IRS Form W-8 appropriate to the Non-U.S. Holder’s circumstances claiming an exemption from or reduction in withholding under an applicable income tax treaty and complies with any other applicable procedures.

- (b) A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realised upon the sale or retirement of an Instrument (including upon redemption), although any amount attributable to accrued interest will be treated as described above under paragraph (a).
- (c) An Instrument held by an individual who is a Non-U.S. Holder at the time of death will not be subject to U.S. federal estate tax as a result of the individual’s death if (i) at the time of the individual’s death payments with respect to the Instrument would not have been effectively connected with a U.S. trade or business of the individual, and (ii) with respect to Instruments with a maturity of more than 183 days, (A) the holder did not own, actually or constructively, 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, and (B) the Instrument does not provide for any Contingent Payments.

#### **Backup Withholding and Information Reporting**

Unless the Issuer or the paying agent has actual knowledge or reason to know that the holder or beneficial owner, as the case may be, is a United States person (as defined in the Code), payments of principal, OID, and interest on Instruments made to a Non-U.S. Holder will not be subject to backup withholding, provided the Non-U.S. Holder provides the payor with a valid IRS Form W-8, but interest and OID paid on Instruments with a maturity of more than 183 days will be reported to the IRS as required under applicable regulations. Any amounts withheld under the backup withholding rules may be allowed as a credit against the Non-U.S. Holder’s U.S. federal income tax liability, and may entitle the Non-U.S. Holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

Non-U.S. Holders should consult their tax advisers regarding the application of information reporting and backup withholding to their particular situations, the availability of an exemption therefrom, and the procedure for obtaining an exemption, if available.

#### **FATCA Withholding**

Certain provisions of U.S. law commonly referred to as “**FATCA**” impose U.S. federal withholding tax at a rate of 30 per cent. on payments of (i) U.S. source interest (including interest paid on Instruments with a maturity of more than 183 days) and (ii) the gross proceeds from the sale or other disposition of an obligation that produces U.S. source interest (including the sale, exchange, redemption, retirement or other taxable disposition of Instruments with a maturity of more than 183 days) after 31 December 2018, in each case, to certain non-U.S. entities, either as beneficial owners or as intermediaries, that fail to meet certain certification, reporting, or related requirements. Accordingly, the status and actions of entities through which a holder holds the Instruments will affect whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country or future U.S. Treasury regulations or other guidance may modify these requirements. If an amount were to be deducted or withheld from interest, principal or other payments on the Instruments as a result of FATCA, none of the Issuer, any

paying agent or any other person would, pursuant to the Terms and Conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected. If FATCA withholding is imposed, a Non-U.S. Holder that is not a foreign financial institution may be entitled to a refund of any amounts withheld by filing a U.S. federal income tax return (which may entail significant administrative burden), to the extent such amount withheld exceeds any U.S. federal income tax liability, if any, such Non-U.S. Holder otherwise has.

**FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE INSTRUMENTS AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF INSTRUMENTS SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.**

#### **The Proposed Financial Transactions Tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments and other primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Instruments where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the proposed FTT remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate. Prospective holders of Instruments are advised to seek their own professional advice in relation to the FTT.

## PLAN OF DISTRIBUTION

### Summary of Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 21 December 2018 (as amended or supplemented from time to time), between the Issuer, the Permanent Dealers and the Arranger (the “**Dealer Agreement**”), the Instruments will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to issue Instruments directly on its own behalf to dealers which are not Permanent Dealers. The Instruments may also be issued by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Instruments to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers. The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments.

### Selling Restrictions

#### *United States*

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Instruments of any identifiable Tranche, (a) as part of its distribution at any time or (b) otherwise until 40 days after completion of the distribution of such Tranche as determined and certified to the Issuer and the Issuing and Paying Agent by such Dealer, or in the case of Instruments issued on a syndicated basis by each of such Dealers with respect to Instruments of such Tranche purchased by or through it, in which case the Issuer shall request the Issuing and Paying Agent to notify each such Dealer when all such Dealers have so certified, within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Instruments during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche, an offer or sale of Instruments within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

#### *Prohibition of Sales to EEA Retail Investors*

Unless the Final Terms in respect of any Instruments (or Pricing Supplement, as the case may be) specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”) or

- (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made pursuant to the FSMA) with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

### **Canada**

The Instruments have not been, and will not be, qualified for sale under the securities laws of Canada or any province or territory thereof. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or distributed and will not offer, sell or distribute any Instruments, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each Dealer has also represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not and will not distribute or deliver this Base Prospectus, or any other offering material in connection with any offering of Instruments, in Canada other than in compliance with applicable securities laws.

### **Japan**

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an

exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **General**

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

No action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or have in their possession or distribute such offering material, in all cases at their own expense.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it subscribes for, purchases, offers, sells or delivers Instruments or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility for such material.



## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Instruments to be admitted to the Official List and traded on the London Stock Exchange's Regulated Market will be substantially in the following form, duly completed to reflect the particular terms of the relevant Instruments and their issue.*

### Final Terms dated [●]

#### NATIONAL GRID NORTH AMERICA INC.

Legal Entity Identifier (LEI): 5Q3U0WRKWZZGRMPYFT08

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]  
under the Euro 8,000,000,000 Euro Medium Term Note Programme

### PART A – CONTRACTUAL TERMS

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Instruments has led to the conclusion that: (i) the target market for the Instruments is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")]/[MiFID II]; and (ii) all channels for distribution of the Instruments to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Instruments (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] (i) a base prospectus for the purposes of Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus[es] [and the supplemental Prospectus] [is][are] available for viewing at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

*The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated [●]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [●] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus dated [●] [and the supplemental Prospectuses dated [●] and [●]]. The Prospectus[es] [and the supplemental Prospectus] [is][are] available for viewing at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

1. (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) [Date on which the Instruments become fungible: [Not Applicable/The Instruments shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] [on [●]/the Issue Date/which is expected to occur on or about [●]].]
2. Specified Currency or Currencies: [●]
3. Aggregate Nominal Amount
  - [(i)] Series: [●]
  - [(ii)] Tranche: [●]
4. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
5. Specified Denominations: [●]
- Calculation Amount: [●]
6. [(i)] Issue Date: [●]
- [(ii)] Interest Commencement Date: [[●]/Issue Date/Not Applicable]]
7. Maturity Date: [●] [Interest Payment Date falling in or nearest to [●]]
8. Interest Basis: [[●] per cent. Fixed Rate]  
[[LIBOR][EURIBOR][CDOR]] +/- [●] per cent. Floating Rate]  
[Zero Coupon]
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
10. Change of Interest or Redemption/Payment Basis: [[●]/[Not Applicable]]
11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Make-whole]  
(see paragraph [16/17/18/19])
12. Date [Board] approval for issuance of Instruments obtained: [[●] [and [●], respectively]]

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - (ii) Interest Payment Date(s): [●] in each year
  - (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
  - (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
  - (v) Day Count Fraction (Condition 3.8): [30/360 / Actual/Actual ([ICMA]/ISDA)/ Actual/Actual Canadian Compound Method]
  - (vi) Determination Dates (Condition 3.8): [●] in each year
14. **Floating Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s): [●] [, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
  - (ii) Specified Interest Payment Dates: [Not Applicable]/[, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
  - (iii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]
  - (iv) First Interest Payment Date: [Not Applicable]/[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iii) above/, not subject to any adjustment[, as the Business Day Convention in (iii) above is specified to be Not Applicable]]
  - (v) Business Centre(s) (Condition 3.8): [●]
  - (vi) Manner in which the Rate(s) of Interest [Screen Rate is/are to be determined: Determination/ISDA Determination]
  - (vii) Interest Period Date(s): [Not Applicable]/[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iii) above/, not subject to any adjustment[, as the Business Day Convention in (iii) above is specified to be Not Applicable]]
  - (viii) Party responsible for calculating the [●] Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
  - (ix) Screen Rate Determination (Condition [Applicable/Not Applicable] 3.2.3(b)):

- Reference Rate: [LIBOR/EURIBOR/CDOR]
  - Interest Determination Date(s): [Second [London][Toronto] business day prior to the start of each Interest Accrual Period]  
[First day of each Interest Accrual Period]  
[Second day on which the TARGET System is open prior to the start of each Interest Accrual Period]  
[[●] business day[s] prior to the start of each Interest Accrual Period]
  - Relevant Screen Page: [●]
  - Reference Banks (if Primary Source is “Reference Banks”): [●]
  - (x) ISDA Determination (Condition 3.2.3(a)): [Applicable/Not Applicable]
    - Floating Rate Option: [●]
    - Designated Maturity: [●]
    - Reset Date: [●]
  - (xi) Linear Interpolation (Condition 3.2.3(c)): [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation]
  - (xii) Margin(s): [+/-][●] per cent. per annum [Not Applicable]
  - (xiii) Minimum Rate of Interest: [●] per cent. per annum [Not Applicable]
  - (xiv) Maximum Rate of Interest: [●] per cent. per annum [Not Applicable]
  - (xv) Day Count Fraction (Condition 3.8): [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360(ISDA)] [Actual/Actual- ICMA]]
15. **Zero Coupon Instrument Provisions** [Applicable/Not Applicable]
- (i) Amortisation Yield (Condition 4.4): [●] per cent. per annum
  - (ii) Day Count Fraction (Condition 3.8): [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360(ISDA)] [Actual/Actual- ICMA]]
- PROVISIONS RELATING TO REDEMPTION**
16. **Residual Holding Call Option** [Applicable/Not Applicable]
- (i) Residual Holding Percentage: [●] per cent.
  - (ii) Party responsible for calculating the Residual Holding Redemption Amount (if not the Calculation Agent): [●]
  - (iii) Benchmark Security: [●]
  - (iv) Benchmark Spread: [●] per cent. per annum
  - (v) Benchmark Day Count Fraction: [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360]]

- [Bond Basis] [30E/360] [Eurobond Basis]  
 [30E/360(ISDA)] [Actual/Actual- ICMA]
17. **Call Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of [●] per Calculation Amount each Instrument and method, if any, of calculation of such amount(s):
- (iii) If redeemable in part: [Applicable/Not Applicable]
- (a) Minimum nominal amount to be [●] redeemed:
- (b) Maximum nominal amount to be [●] redeemed:
- (iv) Option Exercise Date(s): [●]
- (v) Notice period (Condition 4.5.2): Minimum Period [15] [●] days  
 Maximum Period: [30] [●] days
18. **Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of [●] per Calculation Amount each Instrument:
- (iii) Option Exercise Date(s): [●]
- (iv) Notice period (Condition 4.6): Minimum Period [15] [●] days  
 Maximum Period: [30] [●] days
19. **Make-whole Redemption Option** [Applicable/Not Applicable]
- (i) Make-whole Redemption Date(s): [●]
- (a) Reference Bond: [●]
- (b) Quotation Time: [●]
- (c) Redemption Margin: [[●] per cent.][None]
- (d) Determination Date: [●]
- (ii) If redeemable in part:
- (a) Minimum nominal amount [●] to be redeemed:
- (b) Maximum nominal amount [●] to be redeemed:
- (iii) Notice period (Condition 4.5.3): Minimum Period: [15] [●] days  
 Maximum Period: [30] [●] days
20. **Final Redemption Amount of each Instrument:** [●] per Calculation Amount
21. **Early Redemption Amount**

- (i) Early Redemption Amount(s) of each[●] per Calculation Amount Instrument payable on redemption for taxation reasons (Condition 4.2) or on Event of Default (Condition 8):
- (ii) Redemption for taxation reasons[Yes/No] permitted on days other than Interest Payment Dates (Condition 4.2):

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

- |     |  |  |
|-----|--|--|
| 22. | Form of Instruments:   | <b>Registered Certificates:</b><br>Temporary Global Certificate exchangeable for a Permanent Global Certificate not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership. |
| 23. | Financial Centre(s) or other special provisions relating to Payment Dates (Condition 5.3): | [Not Applicable/[●]]   |
| 24. | New Safekeeping Structure:   | [Yes/No]   |

**THIRD PARTY INFORMATION**

[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of National Grid North America Inc.:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1 Listing and trading

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on the London Stock Exchange plc's Regulated Market with effect from [●].]
- (iii) Estimate of total expenses [●] related to admission to trading:

### 2 Ratings

Ratings: [The Instruments to be issued [have been] [are expected to be] rated:  
[S&P: [●]]  
[Moody's: [●]]]

[The Instruments have not been specifically rated.]

### 3 Interests of natural and legal Persons involved in the Issue

Save for any fees [of [●]] payable to the Dealers, so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer. The Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

### 4 [Fixed Rate Instruments only – Yield

Indication of yield: [●] per cent. per annum. This is calculated on the Issue Date, and is not an indication of future yield.

### 5 Operational Information

ISIN: [●]  
Common Code: [●]  
CFI: [●]  
FISN: [●]  
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[●]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

Name(s) of [relevant Dealer/Managers]: [●]

The aggregate principal amount of [Not Applicable/Euro [●]] the Instruments issued has been translated into Euro at the rate of [●], producing a sum of (for Instruments not denominated in Euro):

[Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Instruments are capable of meeting them the Instruments may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Instruments will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

Relevant Benchmark[s]:

Amounts payable under the Instruments will be calculated by reference to [[*specify benchmark*] which is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 (*Register of administrators and benchmarks*) of Regulation (EU) 2016/1011]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] [does not fall within the scope of Regulation (EU) 2016/1011]/[by virtue of Article 2 of that regulation/the transitional provisions in Article 51 of Regulation (EU) 2016/1011 apply such that [*administrator legal name*] is not currently required to obtain authorisation or registration (or if located outside the EU, recognition, endorsement or equivalence)]]/[Not Applicable]

## 6 Distribution

U.S. Selling Restrictions:

Regulation S; Compliance Category 3

Prohibition of Sales to EEA Retail Investors:

[Applicable/Not Applicable]



Method of distribution:	[Syndicated/Non-syndicated]
If syndicated, names of Managers:	[Not Applicable/give names]
Stabilisation Manager(s) (if any):	[Not Applicable/give names]
If non-syndicated, name of Dealer:	[Not Applicable/give name]

## FORM OF PRICING SUPPLEMENT

*The Pricing Supplement in respect of each Tranche of PSM Instruments will be substantially in the following form, duly completed to reflect the particular terms of the relevant Instruments and their issue.*

**NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC, AS AMENDED OR SUPERSEDED, FOR THE ISSUE OF THE INSTRUMENTS DESCRIBED BELOW.**

### Pricing Supplement dated [●]

#### **NATIONAL GRID NORTH AMERICA INC.**

Legal Entity Identifier (LEI): 5Q3U0WRKWZZGRMPYFT08

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]

under the Euro 8,000,000,000 Euro Medium Term Note Programme

### **PART A – CONTRACTUAL TERMS**

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Instruments are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Instruments has led to the conclusion that: (i) the target market for the Instruments is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")]/[MiFID II]; and (ii) all channels for distribution of the Instruments to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Instruments (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Any person making or intending to make an offer of the Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Listing Particulars dated [*current Listing Particulars date*] [and the supplemental Listing Particulars dated [*date*]] which [together] constitute[s] listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Conduct Authority (the “**Listing Rules**”). This document constitutes the Pricing Supplement of the Instruments described herein for the purposes of Listing Rule 4.2.3 of the Listing Rules and must be read in conjunction with such Listing Particulars [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of this Pricing Supplement and the Listing Particulars [as so supplemented]. The Listing Particulars [and the supplemental Listing Particulars] [is][are] available for viewing at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

*The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Listing Particulars with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [*original date*] and set forth in the Listing Particulars dated [*original date*] and incorporated by reference into the Listing Particulars dated [*current Listing Particulars date*]. This document constitutes the Pricing Supplement of the Instruments described herein for the purposes of Listing Rule 4.2.3 of the Listing Rules of the Financial Conduct Authority (the “**Listing Rules**”) and must be read in conjunction with the Listing Particulars dated [*current date*] [and the supplemental Listing Particulars dated [●]], which [together] constitute[s] listing particulars for the purposes the Listing Rules. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of this Pricing Supplement and the Listing Particulars dated [*current Listing Particulars date*] [and the supplemental Listing Particulars dated [●] and [●]]. The Listing Particulars [and the supplemental Listing Particulars] [is][are] available for viewing at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

1. (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) [Date on which the Instruments become fungible: [Not Applicable/The Instruments shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] [on [●]/the Issue Date/which is expected to occur on or about [●]].]
2. Specified Currency or Currencies: [●]
3. Aggregate Nominal Amount
  - [(i)] Series: [●]
  - [(ii)] Tranche: [●]
4. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
5. Specified Denominations: [●]
- Calculation Amount: [●]
6. [(i)] Issue Date: [●]

7. [(ii)] Interest Commencement Date: [[●]/Issue Date/Not Applicable]]
7. Maturity Date: [●] [Interest Payment Date falling in or nearest to [●]]
8. Interest Basis: [[●] per cent. Fixed Rate]  
[[LIBOR][EURIBOR][CDOR]] +/- [●] per cent. Floating Rate]  
[Zero Coupon]
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [100] per cent. of their nominal amount
10. Change of Interest or Redemption/Payment Basis: [[●]/[Not Applicable]]
11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Make-whole]  
(see paragraph [16/17/18/19])
12. Date [Board] approval for issuance of Instruments obtained: [[●] [and [●], respectively]]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction (Condition 3.8): [30/360 / Actual/Actual ([ICMA]/ISDA)/ Actual/Actual Canadian Compound Method]
- (vi) Determination Dates (Condition 3.8): [●] in each year
14. **Floating Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s): [●] [, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
- (ii) Specified Interest Payment Dates: [Not Applicable]/[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
- (iii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]

- (iv) First Interest Payment Date: [Not Applicable]/[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
- (v) Business Centre(s) (Condition 3.8): [●]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Interest Period Date(s): [Not Applicable]/[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iii) below/, not subject to any adjustment[, as the Business Day Convention in (iii) below is specified to be Not Applicable]]
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [●]
- (ix) Screen Rate Determination (Condition 3.2.3(b)): [Applicable/ Not Applicable]
- Reference Rate: [LIBOR/EURIBOR/CDOR]
  - Interest Determination Date(s): [Second [London][Toronto] business day prior to the start of each Interest Accrual Period]  
[First day of each Interest Accrual Period]  
[Second day on which the TARGET System is open prior to the start of each Interest Accrual Period]  
[[●] business day[s] prior to the start of each Interest Accrual Period]
  - Relevant Screen Page: [●]
  - Reference Banks (if Primary Source is “Reference Banks”): [●]
- (x) ISDA Determination (Condition 3.2.3(a)): [Applicable/Not Applicable]
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (xi) Linear Interpolation (Condition 3.2.3(c)): [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation]
- (xii) Margin(s): [+/-][●] per cent. per annum [Not Applicable]
- (xiii) Minimum Rate of Interest: [●] per cent. per annum [Not Applicable]
- (xiv) Maximum Rate of Interest: [●] per cent. per annum [Not Applicable]
- (xv) Day Count Fraction (Condition 3.8): [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360(ISDA)] [Actual/Actual- ICMA]]

15. **Zero Coupon Instrument Provisions** [Applicable/Not Applicable]
- (i) Amortisation Yield (Condition 4.4): [●] per cent. per annum
- (ii) Day Count Fraction (Condition 3.8): [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360(ISDA)] [Actual/Actual- ICMA]]
- PROVISIONS RELATING TO REDEMPTION**
16. **Residual Holding Call Option** [Applicable/Not Applicable]
- (i) Residual Holding Percentage: [●] per cent.
- (ii) Party responsible for calculating the Residual Holding Redemption Amount (if not the Calculation Agent): [●]
- (iii) Benchmark Security: [●]
- (iv) Benchmark Spread: [●] per cent. per annum
- (v) Benchmark Day Count Fraction: [[Actual/Actual] [Actual/Actual-ISDA] [Actual/365(Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360(ISDA)] [Actual/Actual- ICMA]]
17. **Call Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of [●] per Calculation Amount each Instrument and method, if any, of calculation of such amount(s):
- (iii) If redeemable in part: [Applicable/Not Applicable]
- (a) Minimum nominal amount to be redeemed: [●]
- (b) Maximum nominal amount to be redeemed: [●]
- (iv) Option Exercise Date(s): [●]
- (v) Notice period (Condition 4.5.2): Minimum Period [15] [●] days  
Maximum Period: [30] [●] days
18. **Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of [●] each Instrument:
- (iii) Option Exercise Date(s): [●]
- (iv) Notice Period (Condition 4.6): Minimum Period: [15] [●] days  
Maximum Period: [30] [●] days
19. **Make-whole Redemption Option** [Applicable/Not Applicable]
- (i) Make-whole Redemption Date(s): [●]

- (a) Reference Bond: [●]
- (b) Quotation Time: [●]
- (c) Redemption Margin: [[●] per cent.] [None]
- (d) Determination Date: [●]

- (ii) If redeemable in part:
  - (a) Minimum nominal amount to be [●] redeemed:
  - (b) Maximum nominal amount to be [●] redeemed:

- (iii) Notice periods (Condition 4.5.3):
  - Minimum Period: [15] [●] days
  - Maximum Period: [30] [●] days

20. **Final Redemption Amount of each Instrument:** [●] per Calculation Amount

21. **Early Redemption Amount**

- (i) Early Redemption Amount(s) of each [●] per Calculation Amount Instrument payable on redemption for taxation reasons (Condition 4.2) or on Event of Default (Condition 8):
- (ii) Redemption for taxation reasons [Yes/No] permitted on days other than Interest Payment Dates (Condition 4.2):

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

- 22. Form of Instruments: **Registered Certificates:**  
Temporary Global Certificate exchangeable for a Permanent Global Certificate not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership.
- 23. Financial Centre(s) or other special provisions relating to Payment Dates (Condition 5.3): [Not Applicable/[●]]

**THIRD PARTY INFORMATION**

[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of National Grid North America Inc.:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1 Listing and trading

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on the London Stock Exchange plc's Professional Securities Market with effect from [●].]
- (iii) Estimate of total expenses [●] related to admission to trading:

### 2 Ratings

Ratings: [The Instruments to be issued [have been] [are expected to be] rated:  
[S&P: [●]]  
[Moody's: [●]]]

[The Instruments have not been specifically rated.]

### 3 Interests of natural and legal Persons involved in the Issue

Save for any fees [of [●]] payable to the Dealers, so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer. The Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

### 4 [Fixed Rate Instruments only – Yield

Indication of yield: [●] per cent. per annum. This is calculated on the Issue Date, and is not an indication of future yield.

### 5 Operational Information

ISIN: [●]  
Common Code: [●]  
CFI: [●]  
FISN: [●]  
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[●]]  
Delivery: Delivery [against/free of] payment  
Names and addresses of additional Paying Agent(s) (if any): [●]



Name(s) of [relevant Dealer/Managers]: [●]

The aggregate principal amount of [Not Applicable/Euro [●]] the Instruments issued has been translated into Euro at the rate of [●], producing a sum of (for Instruments not denominated in Euro):

[Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as “no” at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Instruments are capable of meeting them the Instruments may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Instruments will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

Relevant Benchmark[s]:

Amounts payable under the Instruments will be calculated by reference to [[*specify benchmark*] which is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 (*Register of administrators and benchmarks*) of Regulation (EU) 2016/1011]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] [does not fall within the scope of Regulation (EU) 2016/1011]/[by virtue of Article 2 of that regulation/the transitional provisions in Article 51 of Regulation (EU) 2016/1011 apply such that [*administrator legal name*] is not currently required to obtain authorisation or registration (or if located outside the EU, recognition, endorsement or equivalence)]]/[Not Applicable]

## 6 Distribution

U.S. Selling Restrictions:	Regulation S; Compliance Category 3
Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
Method of distribution:	[Syndicated/Non-syndicated]

If syndicated, names of Managers:	[Not Applicable/give names]
Stabilisation Manager(s) (if any):	[Not Applicable/give names]
If non-syndicated, name of Dealer:	[Not Applicable/give name]

## GENERAL INFORMATION

- 1 The admission of the Programme to listing on the Official List of the U.K. Listing Authority and to trading on the Market and the PSM is expected to take effect on or about 27 December 2018. The listing of the Instruments on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List of the U.K. Listing Authority and admitted to trading on the Market or the PSM will be so admitted to listing and trading upon submission to the U.K. Listing Authority and the London Stock Exchange (in accordance with their rules and procedures) of the relevant Final Terms and any other information required by the U.K. Listing Authority and the London Stock Exchange, subject in each case to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the Market or the PSM, as the case may be, in accordance with their respective rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.
- 2 NGNA has obtained all necessary consents, approvals and authorisations in the United States of America in connection with the issue and performance of the Instruments.
- 3 The inclusion of NGNA as an Issuer under the Programme was authorised by written consent in lieu of a special meeting of the Board of Directors of NGNA passed on 10 December 2012. The Programme was originally established by NGNA's wholly owned subsidiary, National Grid USA. National Grid USA ceased to be an Issuer under the Programme on 9 December 2015.
- 4 The Instruments have been accepted for clearance through the Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system(s) as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
- 5 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NGNA is aware) existing during the 12 months preceding the date of this Prospectus which may have, or have in such period had, significant effects on the financial position or profitability of NGNA or of the Group.
- 6 There has been no significant change in the financial or trading position of NGNA or the Group since 31 March 2018 and no material adverse change in the prospects of NGNA since 31 March 2018.
- 7 The consolidated financial statements of NGNA for the year ended 31 March 2018, as incorporated by reference in this Prospectus, have been audited by Deloitte & Touche LLP, independent accountants and member firm of the American Institute of Certified Public Accountants, as stated in their report incorporated herein. The consolidated financial statements of NGNA as of 31 March 2017 and for the period ended 31 March 2017, as incorporated by reference in this Prospectus, which include the consolidated financial statements of NGNA as of 31 March 2016 and for the period ended 31 March 2016, have been audited by PricewaterhouseCoopers LLP, independent accountants and member firm of the American Institute of Certified Public Accountants, as stated in their report incorporated herein.
- 8 The Issuer does not intend to provide any post-issuance information in relation to any issues of Instruments.
- 9 For so long as the Programme remains in effect or any Instruments are outstanding, copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the registered office of the Issuer and the specified office in London of the Issuing and Paying Agent:
  - (a) a copy of this Prospectus together with any supplement to this Prospectus;
  - (b) the constitutional documents of the Issuer;

- (c) the audited consolidated financial statements of the Issuer for the financial years ended 31 March 2018 and 31 March 2017, respectively;
  - (d) the amended and restated Trust Deed; and
  - (e) the Agency Agreement.
- 10** In addition, this Prospectus is and, in the case of Instruments to be admitted to the Official List and admitted to trading on the Market or the PSM, the relevant Final Terms will be, available on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.
- 11** Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of its business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Instruments issued under the Programme. Any such short positions could adversely affect future trading prices of Instruments issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.
- 12** The Legal Entity Identifier (LEI) of National Grid North America Inc. is 5Q3U0WRKWZZGRMPYFT08.

**REGISTERED OFFICE OF THE ISSUER**

**National Grid North America Inc.**

40 Sylvan Road  
Waltham  
MA 02451  
United States of America

**THE ARRANGER**

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**DEALERS**

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**HSBC Bank plc**

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United Kingdom

**Lloyds Bank Corporate Markets plc**

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**Morgan Stanley & Co. International plc**

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United Kingdom

**Goldman Sachs International**

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London EC4A 2BB  
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**ING Bank N.V.**

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**Merrill Lynch International**

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United Kingdom

**Société Générale**

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France

**LEGAL ADVISERS**

*To the Issuer as to English and United States law*

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United Kingdom

*To the Dealers as to English and United States law*

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United Kingdom

**THE TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

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United Kingdom

**ISSUING AND PAYING AGENT AND CALCULATION AGENT**

**The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**PAYING AGENT**

**KBL European Private Bankers S.A.**

43 Boulevard Royal  
L-2955 Luxembourg  
Luxembourg

**REGISTRAR**

**The Bank of New York Mellon SA/NV, Luxembourg Branch**

Vertigo Building – Polaris  
2-4 rue Eugène Ruppert  
L-2453 Luxembourg

**CANADIAN PAYING AGENT**

**BNY Trust Company of Canada**

1 York Street, 6th Floor  
Toronto ON  
Canada M5J 0B6

**INDEPENDENT ACCOUNTANTS TO THE ISSUER**

*(for the financial year ended 31 March 2018)*

**Deloitte & Touche LLP**  
30 Rockefeller Plaza  
New York, NY, 10112  
United States of America

*(for the financial year ended 31 March 2017)*

**PricewaterhouseCoopers LLP**  
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New York  
NY 10017  
United States of America