Prospectus

NATIONAL GRID GAS FINANCE plc

(incorporated with limited liability in England and Wales under registered number 5895068)

£6,000,000,000

Euro Medium Term Note Programme

unconditionally and irrevocably guaranteed by

NATIONAL GRID GAS DISTRIBUTION LIMITED

(incorporated with limited liability in England and Wales under registered number 10080864)

Under the Euro Medium Term Note Programme (the "**Programme**") described in this Prospectus (the "**Prospectus**"), National Grid Gas Finance plc ("**NGGF**" or 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 Guarantor, the Trustee and the relevant Dealer(s) (as defined below). Instruments will upon issue be guaranteed by National Grid Gas Distribution Limited ("**NGGD**" or the "**Guarantor**"). The aggregate principal amount of Instruments outstanding will not at any time exceed £6,000,000,000 (or the equivalent in other currencies). The Instruments will only be issued in bearer form.

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 ("**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 on 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, as appropriate, to trading on the Market or the PSM and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The PSM is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The relevant Final Terms (as defined in the section headed "*Overview of the Programme*") in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the Official List and admitted to trading on the Market or the PSM. In the case of Instruments issued under the Programme which are listed on the Official List and admitted to trading on the PSM ("**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).

Each Series (as defined on page 6) of Instruments will be represented on issue by a temporary global instrument in bearer form (each a "**temporary Global Instrument**") or a permanent global instrument (each a "**permanent Global Instrument**" and, together with the temporary Global Instruments, the "**Global Instruments**"). If the Global Instruments are stated in the applicable Final Terms to be issued in new global note ("**NGN**") form, the Global Instruments will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Global Instruments which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**"). The provisions governing the exchange of interests in any Global Instruments for interests in any other Global Instruments and Definitive Instruments are described in "*Overview of Provisions Relating to the Instruments while in Global Form*".

The Programme has been rated 'A3 (on review for downgrade)' by Moody's Investors Service Ltd. ("**Moody's**") and 'A- (CreditWatch with negative implications)' by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). Moody's and S&P are each established in the European Union and each are registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**"). Tranches of Instruments (as defined in "*Overview of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating assigned to the Instruments already issued. 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. See "*Description of the Guarantor – Credit Ratings*" for further information relating to credit ratings. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Arranger for the Programme

BARCLAYS

The Dealers

BARCLAYS	**BNP PARIBAS**
BOFA MERRILL LYNCH	**MORGAN STANLEY**

The date of this Prospectus is 23 January 2017

IMPORTANT NOTICES

This Prospectus comprises (i) a base prospectus (the "**Base Prospectus**") for the purposes of Article 5.4 of Directive 2003/71/EC, as amended to the extent that such amendments have been implemented in a 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 NGGD which, according to the particular nature of the Issuer, NGGD and the Instruments to be issued by the Issuer, 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 NGGD and the rights attaching to such Instruments and (ii) listing particulars for the purposes of LR 2.2.11 of the Listing Rules of the Financial Conduct Authority with regard to the Issuer and NGGD (the "**Listing Particulars**").

For avoidance of doubt, the Pricing Supplement forms part of the Listing Particulars and does not form part of the Base Prospectus.

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus and the Final Terms (as defined herein) for each Tranche (as defined herein) of Instruments issued under the Programme. To the best of the knowledge of each of the Issuer and the Guarantor (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 should be read and construed together with any amendments or supplements hereto and with any documents deemed to be incorporated herein (see "*Combined Historical Financial Information of the Gas Distribution Business*" below) and, in relation to any Tranche of Instruments, should be read and construed together with the applicable Final Terms.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Instruments and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, the Trustee 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 or the Guarantor 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 or the Guarantor 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.

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. The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and will be in bearer form and subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

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*".

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

Save for the Issuer and the Guarantor, 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 statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Arranger, the Dealers or the Trustee 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 and/or the Guarantor 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 may wish to consider either on its own or with the help of its financial and other professional advisers, whether it:

(i) has 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) has 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) has 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) understands thoroughly the terms of the relevant Instruments and be familiar with the behaviour of any relevant indices and financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Certain Instruments are 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 (1) Instruments are legal investments for it, (2) Instruments can be used as collateral for various types of borrowing and (3) 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 "**€**" and "**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 on the Functioning of 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.$**" and "**U.S. dollars**" are to the lawful currency of the United States of America, 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*"), the Dealer or Dealers (if any) acting as stabilisation manager(s) (the "Stabilisation Manager(s)") (or any person acting on behalf of any Stabilisation Manager(s)) may, to the extent permitted by applicable laws and directives, 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 Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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COMBINED HISTORICAL FINANCIAL INFORMATION OF THE GAS DISTRIBUTION BUSINESS

NGGF was incorporated on 3 August 2006 (see the section "*Description of National Grid Gas Finance plc*" below) but it did not commence operations until the establishment of this Programme on 5 September 2016 and the subsequent issuance of Existing MTN Instruments hereunder (as defined and further described under "*Description of the Guarantor – Overview of Disposal*"). Therefore, NGGF currently does not have historical financial information.

The audited combined historical financial information of National Grid Gas's gas distribution business (the "**Gas Distribution Business**") for (i) the year ended 31 March 2016 and (ii) the six months ended 30 September 2016, together with the accountant's report of PricewaterhouseCoopers LLP thereon, as set out in the Appendix to this Prospectus, are presented to assist potential investors in their assessment of the financial position as at 31 March 2016 and 30 September 2016, respectively, and trading for the year ended 31 March 2016 and the six months ended 30 September 2016, respectively, prior to the separation and subsequent transfer of the Gas Distribution Business from National Grid Gas plc ("**NGG**") to NGGD, the Guarantor, on 1 October 2016.

See the section headed "*Description of the Guarantor – Hive Out*" for further information.

The audited combined historical financial information reflects the assets and liabilities transferred as part of the Hive Out (as defined below). The Prospectus of NGGF issued on 5 September 2016 reflected the expected transaction perimeter at that time. Due to subsequent changes in the transaction perimeter, the financial information as at 31 March 2016 has changed. The financial impact on the affected balances is summarised in Note 1 to the audited combined historical financial information.

The accounting policies used in the presentation of the audited combined historical financial information are consistent with those that will be applicable to NGGD for the year ending 31 March 2017.

The audited combined historical financial information has been prepared using the historical results of operations and assets and liabilities attributable to the Gas Distribution Business. They include allocations and attributions of expenses, assets and liabilities from NGG and certain of its subsidiary undertakings (together, the "**National Grid Gas Group**") where they related to the Gas Distribution Business as at 31 March 2016 and 30 September 2016, as the case may be. The audited combined historical financial information may not be indicative of the Gas Distribution Business's (or NGGD's) future performance and does not necessarily reflect what the combined results of operations, financial position and cash flows would have been had the Gas Distribution Business operated as a separate independent company (i.e. outside of NGG) during the period presented. In addition, in order to obtain regulatory approvals in connection with the proposed sale (as described in more detail in "*Description of the Guarantor*"), NGG may be required to implement remedies or make changes to the proposed business of NGGD that may have an adverse effect on NGGD and the impact of such remedies or changes cannot be predicted at this time and has not been taken into account in the preparation of the audited combined historical financial information.

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 publish and make available an appropriate amendment or supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Instruments to be listed on the Official List and admitted to trading on the Market, 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.

Issuer	National Grid Gas Finance plc ("**NGGF**") (registered number 5895068).
Guarantor	National Grid Gas Distribution Limited (registered number 10080864).
Description	Euro Medium Term Note Programme.
Size	Up to £6,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Instruments outstanding at any one time.
Arranger	Barclays Bank PLC
Principal Dealers	Barclays Bank PLC BNP Paribas Merrill Lynch International Morgan Stanley & Co. International plc The Issuer and Guarantor 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 "**Permanent Dealers**" 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 "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	The Law Debenture Trust Corporation p.l.c.
Issuing and Paying Agent	The Bank of New York Mellon, London Branch
Method of Issue	The Instruments will be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a "**Series**") 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 "**Tranche**") 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 aggregate principal 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 "**Final Terms**").
Issue Price	Instruments may be issued at their principal amount or at a

discount or premium to their principal amount.

Form of Instruments The Instruments may be issued in bearer form only. Each Tranche of Instruments will be represented on issue by a temporary Global Instrument if (a) Definitive Instruments are to be made available to Instrumentholders following the expiry of 40 days after their issue date or (b) such Instruments have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "*Plan of Distribution - Selling Restrictions*" below), otherwise such Tranche will be represented by a permanent Global Instrument. Any permanent Global Instrument shall only be exchanged for Instruments in definitive form in the limited circumstances set out in the permanent Global Instrument.

Clearing Systems Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Guarantor, 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 Instrument is a NGN, the Global Instrument 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 Instrument is a CGN, the Global Instrument representing the relevant Instruments may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Instruments 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 Guarantor, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s).

Currencies Subject to compliance with all relevant laws, regulations and directives, Instruments may be issued in U.S. dollars, Danish krone, Euro, Hong Kong dollars, New Zealand dollars, Sterling, Swedish krona, Swiss francs or Japanese yen or in other currencies if the Issuer, the Guarantor, the Trustee 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 (i) in the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State 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) and (ii) 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: (a) 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 (b) by reference to LIBOR or EURIBOR 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.
Index Linked Instruments	Payments of interest and principal in respect of Index Linked Instruments will be calculated by reference to an Index Ratio, derived from either: (a) the U.K. Retail Prices Index (the "**RPI**") (all items) published by the Office for National Statistics or the relevant successor index ("**RPI Linked Instruments**"); or (b) the U.K. Consumer Prices Index (the "**CPI**") (all items) published by the Office for National Statistics or the relevant successor index ("**CPI Linked Instruments**").
Interest Periods, Rates of Interest and Adjustment to the 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. Pursuant to Condition 4.4, further adjustments to the applicable rate of interest as set out in the relevant Final Terms shall be made in the event of negative rating actions within the period of 18 months following the date on which National Grid plc ceases to own directly or indirectly the majority of the share capital of NGGD.
Redemption	The relevant Final Terms will specify the basis for calculating the redemption amounts payable.
Optional Redemption	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 holders, and if so the terms applicable to such redemption. 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 determined in accordance with Condition 6.5.3, or otherwise at any other amount specified, and at any time(s) specified, in such 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 (as set out in the relevant Final Terms) at any time if the Residual Holding Percentage (as set out in the relevant Final Terms) or more of the aggregate principal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.
Redemption at the option of the Instrumentholders on a Restructuring Event	The Instrumentholders will have the option to redeem their Instruments early in the event of certain materially prejudicial events in respect of NGGD's gas transporter licence and a consequential negative rating action.
Status of Instruments	The Instruments will constitute unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer, as described in "*Terms and Conditions of the Instruments - Status*".
Status of the Guarantee	The payment obligations of the Guarantor under the Guarantee shall, subject to such exceptions as are from time to time applicable under the laws of England (and subject to the negative pledge provision), rank equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Guarantor.
Negative Pledge	The Instruments will contain a negative pledge provision.
Cross-Acceleration	The events of default in respect of the Instruments contain a cross-acceleration event of default (subject to a threshold carve-out of £50,000,000 or its equivalent in any other currency) all as more fully described under "*Terms and Conditions of the Instruments*".

Events of Default	If any of the events in Condition 10.1 from (a) to (j) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one quarter in principal amount of the Instruments then outstanding or if so directed by way of Extraordinary Resolution shall, give notice to the Issuer that the Instruments are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount together (if applicable) with accrued interest to the date of payment. The Events of Default also include a cross-acceleration provision and a Net Debt to RAV Ratio (equal to or greater than 70 per cent.) provision (subject to a cure right).
Early Redemption	Except as provided in "*Optional Redemption*" above and subject always to any laws, regulations and directives applicable to the relevant currency in which such Instruments are denominated, Instruments will be redeemable at the option of the Issuer prior to maturity only for tax reasons and, in the case of Index Linked Instruments only, for reasons related to the relevant index. See "*Terms and Conditions of the Instruments - Redemption, Purchase and Options*".
Withholding Tax	All payments of principal and interest in respect of the Instruments and the Coupons or under the Guarantee will be made free and clear of withholding taxes of the United Kingdom save as required by law. In the event that any deduction or withholding on account of tax is required to be made, the Issuer (or, as the case may be, the Guarantor) shall, in the circumstances provided in "*Terms and Conditions of the Instruments – Taxation*" and subject to the exceptions therein, pay additional amounts so as to compensate the Instrumentholder or, as the case may be, Couponholder for the amounts withheld or deducted.
Governing Law	English.
Listing	Each Series may be admitted to the Official List and admitted to trading on the Market or the PSM.
Ratings	The Programme has been rated 'A3 (on review for downgrade)' by Moody's and 'A- (CreditWatch with negative implications)' by S&P. Moody's and S&P are each established in the European Union and each are registered under the CRA Regulation. Tranches of Instruments (as defined in "*Overview of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating assigned to the Instruments already issued. 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, Public Offer Selling Restriction under the Prospectus Directive and Japan. See "*Plan of Distribution*". Category 2 selling restrictions will apply to the Instruments and the Guarantee for the purposes of Regulation S under the Securities Act. The Instruments will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**D Rules**") unless (a) the relevant Final Terms states that Instruments are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**") or (b) the Instruments are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Instruments will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.
Terms and Conditions	The Terms and Conditions applicable to each Series will be as agreed between the Issuer, the Guarantor, the Trustee and the relevant Dealer(s) or other purchaser at or prior to the time of issuance of such Series and will be specified in the relevant Final Terms.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under Instruments issued under the Programme or their obligations under the Guarantee, as applicable. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

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

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the Issuer or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Instruments for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Instruments are exhaustive. Prospective investors should also 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.

Factors that may affect the Issuer's and the Guarantor's ability to fulfil their respective obligations under or in connection with the Instruments

Risks relating to the Issuer and its business

NGGF's only business is to act as a finance subsidiary of the Guarantor and it has no assets other than the amounts representing the proceeds of its issued and paid-up share capital, such fees (if any) payable to it in connection with the issue of the Instruments (or other similar instruments) or entry into of other obligations from time to time and any on-loan made by it of the proceeds of the issue of any Instruments (or other similar instruments). Therefore, NGGF is subject to all risks to which the Guarantor and the Gas Distribution Business are subject, to the extent that such risks could limit the Guarantor's ability to satisfy, in full and on a timely basis, its obligations under or in connection with the Guarantee and the Instruments. See "*Risks relating to the Gas Distribution Business*" below.

Risks relating to the Gas Distribution Business

Potentially harmful activities

Aspects of the Gas Distribution Business's activities could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with the Gas Distribution Business include the storage, transmission and distribution of gas. Gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of the Gas Distribution Business that are not currently regarded or proved to have adverse effects but could become so. A significant safety or environmental incident, or the failure of the Gas Distribution Business's safety processes or of its occupational health plans, as well as a breach of applicable regulatory or contractual obligations or the business's climate change targets, could materially adversely affect the Gas Distribution Business's results of operations and its reputation. The business currently commits significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting the Gas Distribution Business's obligations under negotiated settlements. The business is also subject to laws and regulations governing health and safety matters to protect the public and its employees and contractors, who could potentially be harmed by these activities, as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose the business to costs and liabilities relating to the business' operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by the Group and sites used for the disposal of its waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and the Gas Distribution Business's share of the liability. The business is increasingly subject to regulation in relation to climate change and is affected by requirements to reduce the business's own carbon emissions as well as to enable reduction in energy use by its customers. If more onerous legal requirements are imposed or the business's ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on the Gas Distribution Business's business, reputation, results of operations and financial position.

Infrastructure and IT systems

The Gas Distribution Business may suffer a major network failure or interruption or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by a failure to maintain the health of the assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This in turn could cause the Gas Distribution Business to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming the business's reputation. Where demand for gas exceeds supply and the upstream balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage the business's reputation. In addition to these risks, the Gas Distribution Business may be affected by other potential events that are largely outside its control such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure, together with the Gas Distribution Business's actual or perceived response, could materially adversely affect operational and potentially business performance and the business's reputation. Malicious attack, sabotage or other intentional acts, including breaches of the business's cyber security, may also damage its assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on its reputation, business, results of operations and financial condition. Unauthorised access to, or deliberate breaches of, the business's IT systems may also lead to manipulation of the business's proprietary business data or customer information. Unauthorised access to private customer information may make the Gas Distribution Business liable for a violation of data privacy regulations. Even where the business establishes business continuity controls and security against threats against its systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect the Gas Distribution Business.

The Gas Distribution Business is subject to regulation by the U.K. Government, the Office of Gas and Electricity Markets ("**Ofgem**") and other authorities. Changes in law or regulation or regulatory policy and precedent, including decisions of governmental bodies or regulators, could materially adversely affect the Gas Distribution Business. If the business fails to engage in the energy policy debate, it may not be able to influence future energy policy and deliver its strategy. Decisions or rulings concerning, for example: (i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on the Gas Distribution Business, its markets and customers, implications of climate change and of advancing energy technologies, whether aspects of its activities are contestable, the level of permitted revenues and dividend distributions for the business and in relation to proposed business development activities, could have a material adverse impact on the Gas Distribution Business's results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

The Gas Distribution Business may be exposed to political, social and macroeconomic risks relating to the uncertainties surrounding the United Kingdom's anticipated exit from the European Union. The implications of such an exit are unknown.

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union. The result of the referendum does not legally obligate the United Kingdom to exit the European Union, and it is unclear when the United Kingdom will formally serve notice to the European Council of its desire to withdraw, a process that is unprecedented in European Union history and one that could involve months or years of negotiation to draft and approve a withdrawal agreement in accordance with Article 50 of the Treaty on European Union.

Regardless of any eventual timing or terms of the United Kingdom's exit from the European Union, the June referendum has created political, social and macroeconomic uncertainty.

The potential withdrawal of the United Kingdom from the European Union may affect the Gas Distribution Business in a number of ways. EU-derived law applies or has been implemented in the United Kingdom across a wide range of areas, including securities regulation, data protection, intellectual property and tax (including tariff regulation), and it is unclear when, how and to what extent U.K. law in these areas will diverge from European rules and regulation. Furthermore, if the United Kingdom withdraws from the internal energy market this may have an adverse impact on the Gas Distribution Business.

While there is no certainty at this stage, there is potential that these risks may result in lower revenue and or higher operating costs which could have a material adverse effect on the Gas Distribution Business's prospects, financial condition and results of operations.

Business performance

Current and future business performance may not meet the Gas Distribution Business's expectations or those of Ofgem.

Earnings maintenance and growth from the Gas Distribution Business will be affected by its ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, Ofgem. If the Gas Distribution Business does not meet these targets and standards, or if it does not implement the transformation projects it is carrying out as envisaged, or is not able to deliver its RIIO operating model (see "*Description of the Guarantor – RIIO price controls*" below) successfully, it may not achieve the expected benefits, its business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed and it may be in breach of regulatory or contractual obligations.

Combined Historical Financial Information of the Gas Distribution Business

The audited combined historical financial information of the Gas Distribution Business for (i) the financial year ended 31 March 2016 and (ii) the six months ended 30 September 2016, as set out in the Appendix to this Prospectus, are presented to assist potential investors in their assessment of the financial position as at 31 March 2016 and 30 September 2016, respectively, and trading for the year ended 31 March 2016 and the six months ended 30 September 2016, respectively, prior to the separation of the Gas Distribution Business from NGG on 1 October 2016.

The accounting policies used in the presentation of the audited combined historical financial information are consistent with those that will be applicable to NGGD for the year ending 31 March 2017.

The audited combined historical financial information has been prepared using the historical results of operations and assets and liabilities attributable to the Gas Distribution Business. They include allocations and attributions of expenses, assets and liabilities from NGG and other entities within the National Grid Gas Group where they related to the Gas Distribution Business as at 31 March 2016 and 30 September 2016, as the case may be. The audited combined historical financial information may not be indicative of the Gas Distribution Business's (or NGGD's) future performance and does not necessarily reflect what its combined results of operations, financial position and cash flows would have been had the Gas Distribution Business operated as a separate independent company (i.e. outside of NGG) during the period presented.

In addition, in order to obtain regulatory approvals in connection with the proposed sale (as described in more detail in "*Description of the Guarantor*"), NGG may be required to implement remedies or make changes to the proposed business of NGGD that may have an adverse effect on NGGD and the impact of such remedies or changes cannot be predicted at this time and has not been taken into account in the preparation of the audited combined historical financial information.

Growth and business development activity

Failure by the Gas Distribution Business to respond to external market developments and execute its growth strategy may negatively affect its performance. Conversely, new businesses or activities that the Gas Distribution Business undertakes alone, or with partners, may not deliver target outcomes and may expose the Gas Distribution Business to additional operational and financial risk.

Failure by the Gas Distribution Business to grow its core businesses sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting the Gas Distribution Business's networks to meet the challenges of increasing distributed energy resources) could negatively affect its credibility and reputation and jeopardise the achievement of its intended financial returns. The Gas Distribution Business's business development activities and the delivery of its growth ambition include acquisitions, disposals, joint ventures, partnering and organic investment opportunities, such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing) and internal uncertainties (including actual performance of the business and its business planning model assumptions and ability to integrate acquired businesses effectively). As a result, the Gas Distribution Business may suffer unanticipated costs and liabilities and other unanticipated effects. The business may also be liable for the past acts, omissions or liabilities of companies or businesses it has acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, the Gas Distribution Business may have limited control over operations and its joint venture partners may have interests that diverge from the business's interests. The occurrence of any of these events could have a material adverse impact on the Gas Distribution Business's results of operations or financial condition and could also impact its ability to enter into other transactions.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact the Gas Distribution Business's earnings or its financial condition.

The Gas Distribution Business's results of operations and net debt position may be affected because a significant proportion of its borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates. Furthermore, the business's cash flow may be materially affected as a result of settling hedging arrangements entered into to manage its exchange rate, interest rate and commodity price exposure or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into Euro and other currencies.

The Gas Distribution Business's results of operations could be affected by inflation or deflation.

The Gas Distribution Business's allowed revenues are set in real terms and then adjusted for actual retail prices index ("**RPI**") inflation. There is a risk that inflationary impacts on the business's costs are higher than RPI inflation and are not fully compensated by this inflation adjustment to revenues. There is also a risk that year-on-year RPI inflation is negative with no corresponding decrease in costs or insufficient decrease to offset the impact on revenues. Such increased costs may materially adversely affect the business's results of operations.

The Gas Distribution Business may be required to make significant contributions to fund its defined benefit pension scheme.

The majority of the Gas Distribution Business's employees are members of a defined benefit scheme where the scheme assets are held independently of the business's own financial resources. Estimates of the amount and timing of future funding for the scheme are based on actuarial assumptions and other factors including the actual and projected market performance of the scheme assets, future long-term bond yields; average life expectancies and relevant legal requirements. Actual performance of scheme assets may be affected by volatility in debt and equity markets. Changes in these assumptions and other factors may require the Gas Distribution Business to make additional contributions to this pension scheme which, to the extent they are not recoverable under its price controls, could materially adversely affect the business's results of operations and financial condition.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how the Gas Distribution Business maintains and grows its businesses.

The Gas Distribution Business is financed through cash generated from its ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets. Some of the debt issued by the Issuer is rated by credit rating agencies and changes to these ratings may affect both its borrowing capacity and borrowing costs. In addition, restrictions imposed by Ofgem may also limit how the business services the financial requirements of the Gas Distribution Business or the financing of any newly acquired or developing businesses. Financial markets can be subject to periods of volatility and shortages of liquidity. If the business were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, the business's cost of financing may increase, the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered and the manner in which the business implements its strategy may need to be reassessed.

Such events could have a material adverse impact on the Gas Distribution Business's business, results of operations and prospects.

Some of the Gas Distribution Business's regulatory agreements impose lower limits for the long term senior unsecured debt credit ratings that it must hold or the amount of equity within its capital structure. One of the principal limits requires the business to hold an investment grade long term senior unsecured debt credit rating. In addition, some of the business's regulatory arrangements impose restrictions on the way in which it can operate. These include regulatory requirements for the business to maintain adequate financial resources and may restrict its ability to engage in certain transactions, including paying dividends, lending cash and levying charges. The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on the business's business and financial condition.

The Issuer's and its parent companies' debt agreements and banking facilities contain covenants including those relating to the periodic and timely provision of certain financial information by it to lenders and financial covenants such as restrictions on the level of indebtedness that can be incurred by it (see Condition 10.1(c) (*Events of Default – Breach of Gearing Ratio*) of the Instruments and "*Description of the Guarantor – The Gas Distribution Business*" below). Failure to either comply with these covenants or to obtain waivers of those requirements, could in some cases trigger a right, at the lenders' discretion, to require repayment of some of the business's debt and may restrict the business's ability to draw upon its facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

The Gas Distribution Business's operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom the business does business will not satisfy their obligations, which could materially adversely affect its financial position. This risk is significant where the business has concentrations of receivables from gas utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay the business as a result of increasing commodity prices or adverse economic conditions. To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, the Gas Distribution Business may suffer supply interruption as described in "*Infrastructure and IT systems*", above. There is also a risk to the Gas Distribution Business, where it invests excess cash, enters into, derivatives and other financial contracts with banks or other financial institutions. Banks who provide the business with credit facilities may also fail to perform under those contracts.

Employees and others

The Gas Distribution Business may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver its strategy and values and ensure they are engaged to act in the Gas Distribution Business's best interests.

The Gas Distribution Business's ability to implement its strategy depends on the capabilities and performance of its employees and leadership at all levels of the business. Its ability to implement its strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with its employees. As a result, there may be a material adverse effect on business, financial condition, results of operations and prospects. There is a risk that an employee or someone acting on the business's behalf may breach its internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the business's results of operations, its reputation and its relationship with its regulators and other stakeholders.

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 wide range of Instruments may be issued under the Programme. A number 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.

Index Linked Instruments

The Issuer may issue Instruments with principal or interest determined by reference to an index. Potential investors should be aware that:

(i) the market price of such Instruments may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time than expected;

(iv) the amount of principal payable at redemption may be less than the principal amount of such Instruments or even zero;

(v) an index may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) the timing of changes in an index may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the relevant index, the greater the effect on yield.

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.

Instruments issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their principal 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 description of material risks relating to the Instruments generally:

Modification, waivers 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 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 or the Guarantor, in the circumstances described in Condition 12 of the Instruments.

Pursuant to Condition 12.2 of the Instruments, the Issuer and Guarantor have reserved the right, at any time and without Instrumentholder consent, to modify the Conditions in order to introduce additional covenants or restrictions to the terms of the Instruments if necessary or desirable at the relevant time in order to enable or facilitate any holding company of the Guarantor to raise indebtedness (which, accordingly, would be structurally subordinated indebtedness), provided that a director of each of the Issuer and the Guarantor has certified to the Trustee that the addition of any such covenants or restrictions applicable to the Issuer and/or the Guarantor under the Instruments is not materially prejudicial to Instrumentholders (upon which certificate the Trustee may rely absolutely, without further investigation and enquiry, and without liability to any persons).

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 Instruments affected by it.

Specified Denominations

The Instruments are issued in the Specified Denomination shown in the relevant Final Terms. Such Final Terms may also state that the Instruments will be tradable in the Specified Denomination and integral multiples in excess thereof but which are smaller than the Specified Denomination. Where such Instruments are traded in the clearing systems, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the Specified Denomination.

If Definitive Instruments are required to be issued in relation to such Instruments, a holder who does not hold a principal amount of Instruments at least equal to the Specified Denomination in his account at the relevant time, may not receive all of his entitlement in the form of Definitive Instruments and, consequently, may not be able to receive interest or principal in respect of all of his entitlement, unless and until such time as his holding becomes at least equal to the Specified Denomination.

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

Because the Global Instruments may be held by or on behalf of Euroclear and Clearstream, Luxembourg investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer.

Instruments issued under the Programme may be represented by one or more temporary Global Instruments or permanent Global Instruments. Such Global Instruments may be deposited with the Common Depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Instrument, investors will not be entitled to receive Definitive Instruments. Euroclear and Clearstream, Luxembourg will maintain records of the interests in the Global Instruments. While the Instruments are represented by one or more Global Instruments, investors will be able to trade their interests only through Euroclear or Clearstream, Luxembourg.

While Instruments are represented by one or more Global Instruments, the Issuer will discharge its payment obligations under such Instruments by making payments to the Common Depositary or a Common Service Provider, as the case may be, for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in a Global Instrument 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, interests in the Global Instruments.

Holders of interests in the Global Instruments 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 (1) the Investor's Currency-equivalent yield on the Instruments, (2) the Investor's Currency equivalent value of the principal payable on the Instruments and (3) 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, suspended or withdrawn by the rating agency at any time.

See also "*Description of the Guarantor – Credit Ratings".*

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended).

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following is the text of the terms and conditions which, save for the text in italics and subject to completion by Part A of the relevant Final Terms, will be endorsed on the Instruments in definitive form (if any) issued in exchange for the Global Instrument(s) representing each Series. Either (a) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (b) these terms and conditions as so completed (and subject to simplification by the dis-application of non-applicable provisions), shall be endorsed on such Instruments. All capitalised terms which are not defined in these 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 Definitive Instruments. References in these terms and conditions to "Instruments" are to the Instruments of one Series only of the Issuer (as defined below), 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 Gas Finance plc (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance 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 23 January 2017 between the Issuer, National Grid Gas Distribution Limited (the "**Guarantor**") 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 include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Definitive Instruments, the Coupons and Talons referred to below. An Amended and Restated Agency Agreement (as amended or supplemented from time to time, the "**Agency Agreement**") dated 23 January 2017 has been entered into in relation to the Instruments between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agent(s) named in it. The issuing and paying agent, the paying agent(s) 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) 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 23 January 2017 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents.

The Instrumentholders, the holders of the interest coupons (the "**Coupons**") appertaining to interest bearing Instruments and, where applicable in the case of such Instruments, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed (including the Guarantee (as defined below)) and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

The Instruments are issued in bearer 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, an Index Linked Interest Instrument or an Index Linked Redemption Instrument, or a combination of any of the preceding, depending upon the Interest and Redemption/Payment Basis specified in the relevant Final Terms.

Instruments are issued with Coupons (and, where appropriate, a Talon) attached. Talons may be required if more than twenty-seven coupon payments are to be made with regards to the relevant Instruments.

Title to the Instruments and the Coupons and Talons shall pass by delivery and, except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Guarantor and the Paying Agents shall be entitled to treat the bearer of any Instrument, Coupon or Talon as the absolute owner of that Instrument, Coupon or Talon, as the case may be, and shall not be required to obtain any proof of ownership as to the identity of the bearer.

In these Conditions, "**Instrumentholder**" means the bearer of any Instrument of one Series only of the Issuer, "**holder**" (in relation to an Instrument, Coupon or Talon) means the bearer of any Instrument, Coupon or Talon and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to this Instrument.

2 Status and Guarantee

2.1 Status

The Instruments and Coupons relating to them constitute direct, unconditional and (subject to Condition 3) 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 and Coupons and of the Guarantor under the Guarantee shall, subject to such exceptions as are from time to time applicable under the laws of England (and subject to Condition 3), rank equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Issuer and the Guarantor, respectively.

2.2 Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Instruments and the Coupons. Its obligations in that respect (the "**Guarantee**") are contained in the Trust Deed.

3 Negative Pledge

For so long as any Instrument or Coupon remains outstanding (as defined in the Trust Deed), save for any Permitted Security neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") or Quasi-Security upon the whole or any part of its undertaking, assets or revenues (including any uncalled capital) present or future to secure any Financial Indebtedness (as defined in Condition 10.3), or any guarantee of or indemnity in respect of any Financial Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Instruments, the Coupons and the Trust Deed (a) are secured equally and rateably therewith 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.

In these Conditions:

"**Permitted Security**" means

(a) any Security or Quasi-Security existing as at 1 October 2016 provided however that the principal amount secured has not been increased since 1 October 2016;

(b) any Security or Quasi-Security arising by operation of law and in the ordinary course of trading and not as a result of any default or omission by any member of the Guarantor Group (as defined in Condition 10.3);

(c) any netting or set-off arrangement entered into by any member of the Guarantor Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Guarantor Group;

(d) any payment or close-out netting or set-off arrangement pursuant to any Hedging Arrangement (as defined in Condition 10.3) or foreign exchange transaction entered into by a member of the Guarantor Group, excluding any Security or Quasi-Security under a credit support arrangement;

(e) any Security or Quasi-Security over or affecting any asset of any company which becomes a member of the Guarantor Group, where the Security or Quasi-Security is created prior to the date on which that company becomes a member of the Guarantor Group if:

   (i) the Security or Quasi-Security was not created in contemplation of the acquisition of that company;

   (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that company; and

   (iii) the Security or Quasi-Security is removed or discharged within three months of that company becoming a member of the Guarantor Group;

(f) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Guarantor Group in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by any member of the Guarantor Group;

(g) any Quasi-Security arising as a result of a disposal;

(h) any Security or Quasi-Security arising as a consequence of any finance or capital lease;

(i) any Security or Quasi-Security arising as a result of legal proceedings discharged within 30 days or otherwise being contested in good faith;

(j) any Security or Quasi-Security over any rental deposits in respect of real estate leased or licensed by any member of the Guarantor Group in respect of amounts representing not more than 12 months' rent or licence fee for that real estate;

(k) any Security or Quasi-Security over documents of title and goods as part of a documentary credit transaction entered into in the ordinary course of trading;

(l) any Security or Quasi-Security arising by operation of law in favour of a governmental or taxing authority in respect of Taxes or charges being contested in good faith;

(m) any Security or Quasi-Security provided by a member of the Guarantor Group to a stock, trade or derivative exchange for the purpose of entering into a Hedging Arrangement;

(n) any Security or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security given by any member of the Guarantor Group other than any permitted under paragraphs (a) to (m) (inclusive) above) does not exceed in aggregate £50,000,000 (or its equivalent in other currencies) at any time; and

(o) any Security or Quasi-Security approved or consented to by the Instrumentholders acting by way of an Extraordinary Resolution in accordance with the Trust Deed.

"**Quasi-Security**" means any arrangement where a member of the Guarantor Group:

(a) sells, transfers or otherwise disposes of any of its assets on terms whereby they are or may be leased to or reacquired by a member of the Guarantor Group;

(b) sells, transfers or otherwise disposes of any of its receivables on recourse terms;

(c) enters into any arrangement under which money or the benefit of a bank or other account may be applied, set off or made subject to a combination of accounts; or

(d) enters into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness (as defined in Condition 10.3) or of financing the acquisition of an asset.

"**Taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by any competent taxing authority.

4 Interest

4.1 Interest on Fixed Rate Instruments

Each Fixed Rate Instrument bears interest on its outstanding principal 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 4.3.3.

4.2 Interest on Floating Rate Instruments and Index Linked Interest Instruments

4.2.1 Interest Payment Dates

Each Floating Rate Instrument and Index Linked Interest Instrument bears interest on its outstanding principal 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 4.3.3. 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 specified in the relevant Final Terms 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.

4.2.2 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.

4.2.3 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 any of ISDA Determination, Screen Rate Determination or Linear Interpolation shall apply, depending upon which is specified in the relevant Final Terms.

(A) ISDA Determination: 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 (as further adjusted (if applicable) in accordance with Condition 4.4). 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:

(x) the Floating Rate Option is as specified in the relevant Final Terms;

(y) the Designated Maturity is a period specified in the relevant Final Terms; and

(z) 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 (LIBOR or EURIBOR): 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 shall (subject to any further adjustments (if applicable) in accordance with Condition 4.4) be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(a) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(b) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x) (a) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x) (b) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro in those Member States of the European Union which are participating in European economic and monetary union as selected by the Calculation Agent (the "**Principal Financial Centre**") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) or (II) to leading banks carrying on business in the Principal Financial Centre; *except that*, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(C) Linear Interpolation: Where Linear Interpolation is specified in the relevant Final Terms as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall (subject to any further adjustment (if applicable) in accordance with Condition 4.4) 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 in the relevant Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the relevant Final Terms 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 Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**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.

4.2.4 Rate of Interest for Index Linked Interest Instruments

The Rate of Interest in respect of Index Linked Interest Instruments for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms (and subject to adjustment (if applicable) pursuant to Condition 4.4.) and interest will accrue accordingly.

4.3 Calculation of Interest

4.3.1 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 4 to the Relevant Date (as defined in Condition 8).

4.3.2 Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding

(A) 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 4.2 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.

(B) If any Maximum or Minimum Rate of Interest or Maximum or Minimum 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, but each such Maximum or Minimum Rate of Interest shall be subject to adjustment (where applicable) in accordance with Condition 4.4.

(C) 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.

4.3.3 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.

4.3.4 **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts or Optional Put Redemption Amounts**

The Calculation Agent shall, as soon as practicable after the Relevant Time 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 Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Optional Put 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 4.2.2, 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 10, 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.

4.3.5 **Definitions**

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

"**Benchmark**" means LIBOR or EURIBOR, as may be specified in the relevant Final Terms.

"**Business Day**" means:

(i) 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; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) 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.

"**Calculation Amount**" means the amount specified as such in the relevant Final Terms.

"**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, the "**Calculation Period**"):

(i) 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);

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) 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:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" 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_1 is greater than 29, in which case D_2 will be 30;

(v) 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" 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_2 will be 30;

(vi) 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" 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 D_1 will be 30; and

"$\mathbf{D_2}$" 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_2 will be 30; and

(vii) if "**Actual/Actual-ICMA**" is specified in the relevant Final Terms,

(a) 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

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the actual number of days in such Determination Period and (2) the number of Determination Periods in any year; and

(y) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the actual number of days in such Determination Period and (2) 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.

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"**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:

(i) 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

(ii) 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, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) 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 (iii) 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., as may be amended or supplemented from time to time.

"**Page**" means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuters Market 3000 ("**Reuters**")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may succeed or replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Instrument and that is either specified in, or calculated in accordance with the provisions of, the relevant Final Terms as further adjusted (if applicable) in accordance with Condition 4.4.

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Residual Holding Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Optional Put Redemption 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 the institutions specified as such in the relevant Final Terms or, if none, five leading banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the relevant

Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

"**Relevant Rate**" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition "**local time**" means, with respect to Europe as a Relevant Financial Centre, Brussels time.

"**Representative Amount**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

"**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.

"**Specified Duration**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Final Terms or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to Condition 4.2.2.

"**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.

4.3.6 Calculation Agent and Reference Banks

The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and 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. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. 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, Optional Redemption Amount or Optional Put 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 investment banking firm 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.

4.4 Adjustment to the Rate of Interest

The Rate of Interest payable on the Instruments will be subject to further adjustment from time to time in the event of a Rating Change or Rating Changes (as defined below), within the period from and including the date National Grid plc ceases to own directly or indirectly the majority of the share capital of National Grid Gas Distribution Limited (the "**NGGD Sale Date**") to and including the date falling 18 months from the NGGD Sale Date (the "**Rating Change Period**", with the final date of such Rating Change Period being, the "**Rating Change Period End Date**"), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

(a) the lowest rating then assigned to the Instruments is BBB+ or Baa1 or higher, then from and including the first Interest Payment Date following the Rating Change (the "**Rating Change Effective Date**"), the Rate of Interest payable on the Instruments shall remain the initial Rate of Interest as specified in, or calculated in accordance with the provisions of, the relevant Final Terms;

(b) the lowest rating then assigned to the Instruments is BBB or Baa2, then from and including the first Interest Payment Date following the Rating Change (the "**Rating Change Effective Date**"), the Rate of Interest payable on the Instruments shall be the initial Rate of Interest as specified in, or calculated in accordance with the provisions of, the relevant Final Terms plus 0.25 per cent. per annum; or

(c) the lowest rating then assigned to the Instruments is BBB- or Baa3, or lower, or if the Instruments are not assigned a credit rating by at least one Rating Agency (as defined in Condition 6.6.3), then from and including the first Interest Payment Date following the Rating Change (the "**Rating Change Effective Date**"), the Rate of Interest payable on the Instruments shall be the initial Rate of Interest as specified in, or calculated in accordance with the provisions of, the relevant Final Terms plus 0.50 per cent. per annum,

in each case, the Rate of Interest as so adjusted being the "**Revised Rate of Interest**".

Following each Rating Change within the Rating Change Period the Issuer will, as soon as reasonably practicable, notify the Issuing and Paying Agent, the Calculation Agent and the Instrumentholders in accordance with Condition 15 of the Revised Rate of Interest following such Rating Change and of the applicable Rating Change Effective Date. If, in respect of an Interest Period (the "**Relevant Interest Period**"), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the Rate of Interest payable on the Instruments may be made pursuant to this Condition 4.4 during the Rating Change Period, provided always that at no time during the term of the Instruments will the Rate of Interest payable on the Instruments be less than the initial Rate of Interest as specified in, or calculated in accordance with the provisions of, the relevant Final Terms or more than such Rate of Interest plus 0.50 per cent. per annum. For the avoidance of doubt, the Rate of Interest payable on the Instruments from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Instruments shall be determined in accordance with the ratings assigned to the Instruments as of the Rating Change Period End Date.

In the event the Rate of Interest payable on the Instruments is the Revised Rate of Interest, any Maximum Rate of Interest or Minimum Rate of Interest specified in the relevant Final Terms shall be increased or decreased, as applicable by the difference between the Revised Rate of Interest and the initial Rate of Interest specified in, or calculated in accordance with the provisions of, the relevant Final Terms.

In these Conditions, ‘‘**Rating Change**’’ means the public announcement by any Rating Agency assigning a credit rating to the Instruments of a change in (or, as the case may be, withdrawal or confirmation of) the rating of the Instruments or, as the case may be, of a credit rating being applied.

The Trustee shall not be obliged to monitor compliance by the Issuer with this Condition 4.4 and the Trustee shall be entitled to rely absolutely, without further investigation and enquiry and without liability to any persons, on any notice of the Issuer provided under this Condition 4.4.

5 Indexation

This Condition 5 is applicable only if the relevant Final Terms specifies the Instruments as Index Linked Instruments.

5.1 Definitions

For the purposes of Conditions 5.1 to 5.6, unless the context otherwise requires, the following defined terms shall have the following meanings:

“**Base Index Figure**” means (subject to Condition 5.3(i)) the base index figure as specified in the relevant Final Terms;

“**CPI**” means the U.K. Consumer Prices Index (for all items) published by the Office for National Statistics (2015 = 100) or any comparable index which may replace the U.K. Consumer Prices Index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any). Where CPI is specified as the Index in the relevant Final Terms, any reference to the “Index Figure” which is specified in the relevant Final Terms as:

(i) applicable to the first calendar day of any month shall, subject as provided in Conditions 5.3 and 5.5, be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or

(ii) applicable to any other day in any month shall, subject as provided in Conditions 5.3 and 5.5, be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (i) above and (y) the Index Figure applicable to the first calendar day of the month following, calculated as specified in sub-paragraph (i) above and rounded to the nearest fifth decimal place.

“**Her Majesty’s Treasury**” means Her Majesty’s Treasury or any officially recognised party performing the function of a calculation agent (whatever such party’s title), on its or its successor’s behalf, in respect of the Reference Gilt;

“**Index**” means, subject as provided in Condition 5.3(i), either RPI or CPI as specified in the relevant Final Terms;

“Indexed Benchmark Gilt” means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange whose average maturity most closely matches that of the

Instruments as a gilt-edged market maker or other adviser selected by the Issuer (an "**Indexation Adviser**") shall determine to be appropriate;

"**Index Figure**" has the definition given to such term in the definition of "CPI" or "RPI", as applicable;

"**Index Ratio**" applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure and rounded to the nearest fifth decimal place;

"**Limited Index Ratio**" means (a) in respect of any month or date, as the case may be, prior to the relevant Issue Date, the Index Ratio for that month or date, as the case may be, (b) in respect of any Limited Indexation Date after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date, as the case may be, and the Limited Index Ratio as previously calculated in respect of the month or date, as the case may be, twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"**Limited Indexation Date**" means any date falling during the period specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date, as the case may be, divided by the Index Figure applicable to the month or date, as the case may be, twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"**Limited Indexation Month**" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"**Limited Index Linked Instruments**" means Index Linked Instruments to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

"Redemption Date" means any date on which the Instruments are redeemed in accordance with Condition 5.6, Condition 6.1, Condition 6.2, Condition 6.4, Condition 6.5, Condition 6.6 or Condition 6.7;

"**Reference Gilt**" means the index-linked Treasury Stock/Treasury Gilt specified as such in the relevant Final Terms for so long as such gilt is in issue, and thereafter such issue of index-linked Treasury Stock/Treasury Gilt determined to be appropriate by an Indexation Adviser; and

"**RPI**" means the U.K. Retail Prices Index (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the U.K. Retail Prices Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Where RPI is specified as the Index in the relevant Final Terms, any reference to the "Index Figure" which is specified in the relevant Final Terms as:

(i) applicable to a particular month, shall, subject as provided in Conditions 5.3 and 5.5, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or

(ii) applicable to the first calendar day of any month shall, subject as provided in Conditions 5.3 and 5.5, be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or

(iii) applicable to any other day in any month shall, subject as provided in Conditions 5.3 and 5.5, be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (ii) above and (y) the Index Figure applicable to the first calendar day of the month following, calculated as specified in sub-paragraph (ii) above and rounded to the nearest fifth decimal place.

5.2 Application of the Index Ratio

Each payment of interest and principal in respect of the Instruments shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Index Linked Instruments applicable to the month or date, as the case may be, in or on which such payment falls to be made and rounded in accordance with Condition 4.3.2.

5.3 Changes in Circumstances Affecting the Index

(i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month from and including that in which such substitution takes effect or the first date from and including that on which such substitution takes effect, as the case may be, (1) the definition of "Index" and "Index Figure" in Condition 5.1 shall be deemed to refer to the new date, month or year (as applicable) in substitution for January 1987 (where RPI is specified as the Index in the relevant Final Terms) or 2015 (where CPI is specified as the Index in the relevant Final Terms) (or, as the case may be, to such other date, month or year as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.

(ii) Delay in publication of RPI if sub-paragraph (i) of the definition of Index Figure for RPI is applicable: If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the "**relevant month**") before the month in which a payment is due to be made is not published on or before the fourteenth business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Trustee considers (acting solely on the advice of the Indexation Adviser) to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, (or such other body designated by the U.K. Government for such purpose) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee (acting solely on the advice of the Indexation Adviser)) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5.3(i)) before the date for payment.

(iii) Delay in publication of relevant Index if sub-paragraph (i) and/or (ii) of the definition of Index Figure for CPI is applicable or if sub-paragraph (ii) and/or (iii) of the definition of Index

Figure for RPI is applicable: If the Index Figure relating to any month (the "**calculation month**") which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable for the relevant calculation month shall be (1) such substitute index figure (if any) as the Trustee considers (acting solely on the advice of the Indexation Adviser) to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, (or such other body designated by the U.K. Government for such purpose) for the purposes of indexation of payments on the Reference Gilt or the Indexed Benchmark Gilt (as applicable) or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee (acting solely on the advice of the Indexation Adviser)) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5.3(i)) before the date for payment.

5.4 Application of Changes

Where the provisions of Condition 5.3(ii) or Condition 5.3(iii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls or the date for payment, as the case may be, shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 5.3(ii)(2) or Condition 5.3(iii)(2), the Index Figure relating to the relevant month or relevant calculation month, as the case may be, is subsequently published while an Instrument is still outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Instrument other than upon final redemption of such Instrument, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 5.3(ii)(2) or Condition 5.3(iii)(2) below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

5.5 Material Changes to or Cessation of the Index

(i) Material changes to the relevant Index:

(a) CPI: Where CPI is specified in the relevant Final Terms as the Index and any change is made to the coverage or the basic calculation of such Index which constitutes a fundamental change which would, in the opinion of either the Issuer or the Trustee (acting solely on the advice of an Indexation Adviser), be materially prejudicial to the interests of the Issuer or the Instrumentholders, as the case may be, the Issuer or the Trustee (as applicable) shall give written notice of such occurrence to the other party.

Promptly after the giving of such notice, the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) together shall seek to agree for the purpose of the Instruments one or more adjustments to CPI or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the

Instrumentholders in no better and no worse position than they would have been had the relevant fundamental change to CPI not been made.

If the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned above, a bank or other person in London shall be appointed by the Issuer and the Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Trustee (acting solely on the advice of the Indexation Adviser) (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Instruments one or more adjustments to CPI or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the relevant fundamental change to CPI not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

(b) RPI: Where RPI is specified in the relevant Final Terms as the Index and if notice is published by Her Majesty's Treasury, or on its behalf, following a change to the coverage or the basic calculation of such Index, then the Calculation Agent shall make any such adjustments to the Index consistent with any adjustments made to the index as applied to the Reference Gilt.

(ii) Cessation of the relevant Index:

If the Trustee and the Issuer have been notified by the Calculation Agent that the relevant Index has ceased to be published, or if Her Majesty's Treasury or the Office for National Statistics, as the case may be, or a person acting on its behalf, announces that it will no longer continue to publish the relevant Index, then the Calculation Agent shall determine a successor index *in lieu* of any previously applicable index (the "**Successor Index**") by using the following methodology:

(a) if at any time a successor index has been designated by Her Majesty's Treasury in respect of the Reference Gilt, such successor index shall be designated the "**Successor Index**" for the purposes of all subsequent Interest Payment Dates, notwithstanding that any other Successor Index may previously have been determined under paragraphs (b) or (c) below. This provision will only be applicable when RPI is specified in the relevant Final Terms as the Index; or

(b) the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) together shall seek to agree for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published. If the relevant Final Terms specify RPI as the Index then this paragraph (b) will only be applicable provided the Successor Index has not been determined under paragraph (a) above; or

(c) if the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (ii), a bank or other person in London shall be appointed by the Issuer and the Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 day period referred to above, by the Trustee (acting solely on the advice of the Indexation Adviser) (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

(iii) Adjustment or replacement: The Index shall be adjusted or replaced by a substitute index pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Trustee (acting solely on the advice of the Indexation Adviser) and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Guarantor, the Trustee and the Instrumentholders, and the Issuer shall give notice to the Instrumentholders in accordance with Condition 15 of such amendments as promptly as practicable following such notification or adjustment.

5.6 Redemption for Index Reasons

If either (i) the Index Figure for three consecutive months is required to be determined on the basis of an Index Figure previously published as provided in Condition 5.3(ii)(2) or Condition 5.3(iii)(2), as applicable and the Trustee has been notified by the Calculation Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt or the Indexed Benchmark Gilt (as applicable), and (in either case) no amendment or substitution of the Index shall have been designated by Her Majesty's Treasury in respect of the Reference Gilt or the Indexed Benchmark Gilt (as applicable) to the Issuer and such circumstances are continuing, the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Instrumentholders (or such other notice period as may be specified in the relevant Final Terms) in accordance with Condition 15, redeem all, but not some only, of the Instruments at their principal amount together with interest accrued but unpaid up to and including the date of redemption (in each case adjusted in accordance with Condition 5.2).

6 Redemption, Purchase and Options

6.1 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 principal amount) on the Maturity Date specified in the relevant Final Terms.

6.2 Redemption for Taxation Reasons

If the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Trustee immediately before the giving of the notice referred to below that, on the occasion of the next payment in respect of the Instruments, it would be unable to make such payment without having to pay additional amounts as described in Condition 8, and such requirement to pay such additional amounts arises by reason of a change in, or amendment to, the laws or regulations of the United

Kingdom or any political sub-division or taxing authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations or in any applicable double taxation treaty or convention, which change or amendment 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 (or the Guarantor, as the case may be) taking reasonable measures available to it (such measures not involving any material additional payments by, or expense for, the Issuer (or the Guarantor, as the case may be)), the Issuer may, at its option, on any Interest Payment Date or, if so specified in the relevant Final Terms at any time, having given not less than 30 nor more than 45 days' notice to the Instrumentholders (or such other notice period as may be specified in the relevant Final Terms) in accordance with Condition 15, 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 (or the Guarantor, as the case may be) 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 (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee a certificate signed by any one director of the Issuer (or the Guarantor, as the case may be) stating that the requirement referred to above cannot be avoided by the Issuer (or the Guarantor, as the case may be) 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 and Couponholders.

6.3 Purchases

Each of the Issuer, the Guarantor and their respective subsidiary undertakings may at any time purchase Instruments (provided that all unmatured Coupons and unexchanged Talons appertaining to them are attached or surrendered with them) in the open market or otherwise at any price.

6.4 Early Redemption

The Early Redemption Amount payable in respect of any Instrument, upon redemption of such Instrument pursuant to Condition 6.2, this Condition 6.4 or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

6.5 Redemption at the Option of the Issuer and Exercise of Issuer's Options

6.5.1 Residual Holding Call Option

If (i) Residual Holding Call Option is specified in the relevant Final Terms as applicable, and (ii) if at any time the Residual Holding Percentage or more of the aggregate principal 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 principal 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 6.5.1.

6.5.2 Call Option

If Call Option is specified in the relevant Final Terms as applicable, the Issuer may, unless a Put Event Notice has been given pursuant to Condition 6.6 or an Exercise Notice has been given pursuant to Condition 6.7, 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 principal amount at least equal to the minimum principal amount (if any) permitted to be redeemed specified in the relevant Final Terms and no greater than the maximum principal 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.

6.5.3 Make-whole Redemption Option

If Make-whole Redemption Option is specified in the relevant Final Terms as applicable, the Issuer may, unless a Put Event Notice has been given pursuant to Condition 6.6 or an Exercise Notice has been given pursuant to Condition 6.7, 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 principal amount of the Instrument; and

(ii) the principal 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) expressed as a percentage (rounded to the nearest fifth decimal places, 0.000005 being rounded upwards) at which the Gross Redemption Yield 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 principal amount at least equal to the minimum principal amount (if any) permitted to be redeemed specified in the relevant Final Terms and no greater than the maximum principal 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.

6.6 Redemption at the Option of the Instrumentholders on a Restructuring Event

6.6.1 If, for so long as any Instrument remains outstanding, a Restructuring Event (as defined below) occurs, and prior to the commencement of or during the Restructuring Period (as defined below):

(a) an independent financial adviser (as described below) shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Instrumentholders; or

(b) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Issuer or the Guarantor at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6.6 shall cease to have any further effect in relation to such Restructuring Event.

6.6.2 If, for so long as any Instrument remains outstanding, a Restructuring Event occurs and (subject to the previous paragraph and to Condition 6.6.4 below):

(a) within the Restructuring Period, either:

(i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or

(ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and

(b) an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Instrumentholders (a "**Negative Certification**"),

then the holder of each Instrument will, upon the giving of a Put Event Notice (as defined below), have the option (the "**Put Option**") to require the Issuer (failing which, the Guarantor) to redeem or, at the option of the Issuer (or the Guarantor, as the case may be), purchase (or procure the purchase of) that Instrument on the Put Date (as defined below), at its Optional Put Redemption Amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Instrumentholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Instruments or other unsecured and unsubordinated debt of the Issuer or the Guarantor having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification, and any other certificate of an independent financial adviser appointed under this Condition 6.6, shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer, the Guarantor and the Instrumentholders. The Issuer or the Guarantor may, at any time, with the approval of the Trustee appoint an independent financial adviser for the purposes of this Condition 6.6. If, within five business days (as defined in Condition 7.6) following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Issuer or the Guarantor shall not have appointed an independent financial adviser for the purposes of this Condition 6.6 and (if so required by the Trustee) the Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Trustee may appoint an independent financial adviser for such purpose following consultation with the Issuer.

Promptly upon the Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Instruments then outstanding shall, give notice (a "**Put Event Notice**") to the Issuing and Paying Agent and Instrumentholders in accordance with Condition 15 specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option, the holder of the Instrument must deposit such Instrument with any Paying Agent at any time during normal business hours of such Paying Agent, falling within the period (the "**Put Period**") of 45 days commencing on the day on which the Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Put Notice**"). No Instrument so deposited and option so exercised may be withdrawn without the prior consent of the Issuer except as provided in the Agency Agreement or where, prior to the date of redemption, an Event of Default has occurred and the Trustee has given notice to the Issuer that the

Instruments are due and repayable in accordance with Condition 10 in which event such holder, at its option, may elect by notice to the Issuer to withdraw its Instrument(s) and accompanying Put Notice. The Issuer (failing which, the Guarantor) shall redeem or purchase (or procure the purchase of) the relevant Instrument on the fifteenth day after the date of expiry of the Put Period (the "**Put Date**") unless previously redeemed or purchased.

If 80 per cent. or more in principal amount of the Instruments then outstanding are redeemed or purchased pursuant to this Condition 6.6, the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Issuing and Paying Agent and, in accordance with Condition 15, the Instrumentholders (such notice being given within 30 days after the Put Date), which notice shall be irrevocable, redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Instruments at their principal amount, together with interest (if any) accrued to (but excluding) the date fixed for such redemption or purchase. Such notice to the Instrumentholders shall specify the date fixed for redemption or purchase and the manner in which such redemption or purchase will be effected.

If the rating designations employed by any Rating Agency are changed from those which are described in the definition of a "Rating Downgrade" below, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee (who shall be entitled to consult with independent advisers in relation thereto, at the cost and expense of the Issuer (or the Guarantor, as the case may be)), the rating designations of such Rating Agency or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of such Rating Agency and this Condition 6.6 (and Condition 4.4 above) shall be construed accordingly.

6.6.3 For the purposes of these Conditions:

(i) "**Distribution Licence**" means a gas transporter licence of the Guarantor relating to the gas distribution business, granted or transferred under section 7(2) of the U.K. Gas Act 1986 (as amended by section 76 of the Utilities Act 2000 and further amended from time to time).

(ii) A "**Negative Rating Event**" shall be deemed to have occurred if (1) the Issuer and/or the Guarantor does not either prior to or not later than 14 days after the date of the relevant Restructuring Event seek, and thereupon use all reasonable endeavours to obtain, a rating of the Instruments or any other unsecured and unsubordinated debt of the Issuer or the Guarantor having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).

(iii) A "**Put Event**" occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.

(iv) "**Rating Agency**" means Moody's Investors Service Limited ("**Moody's**") or Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies Inc. ("**S&P**") or any of their respective affiliates or successors or any rating agency (a "**Substitute Rating Agency**") substituted for any of them by the Issuer (or the Guarantor, as the case may be) from time to time.

(v) A "**Rating Downgrade**" shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any

Rating Agency is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being), or better to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being), or worse or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.

(vi) "**Rated Securities'**" means the Instruments, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Issuer (or the Guarantor) having an initial maturity of five years or more which is rated by a Rating Agency.

(vii) "**Restructuring Event**" means the occurrence of any one or more of the following events with respect to the Guarantor:

(A)

(i) the relevant regulatory authority giving the Guarantor written notice of revocation or the transfer of its Distribution Licence; or

(ii) the Guarantor agreeing in writing with the relevant regulatory authority to any revocation, transfer or surrender of its Distribution Licence; or

(iii) any legislation (whether primary or subordinate) being enacted which terminates, transfers or revokes the Guarantor's Distribution Licence;

except, in each such case, in circumstances where a licence or licences on terms certified by any one director of the Guarantor as being substantially no less favourable is or are granted or transferred to the Guarantor, the Issuer or another wholly-owned subsidiary of the Guarantor or the Issuer, where such subsidiary at the time of such grant or transfer either (x) executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of all Instruments issued by the Issuer in such form as the Trustee may approve or (y) becomes the primary debtor under the Instruments issued by the Issuer in accordance with Condition 12.3; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which the Guarantor is authorised and empowered under relevant legislation to transport gas in the United Kingdom unless any one director of the Guarantor has certified in good faith to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Guarantor;

(C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature or to correct a manifest error) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 4AA of the U.K. Gas Act 1986 (as this may be amended from time to time) unless any one director of the Guarantor has certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Guarantor.

(viii) "**Restructuring Period**" means:

(A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or

(B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Issuer and/or the Guarantor shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and (cc) the date on which a Negative Certification shall have been given to the Trustee in respect of that Restructuring Event.

6.6.4 A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6.6 does not announce or publicly confirm or inform the Issuer, the Guarantor or the Trustee in writing upon request (which the Issuer shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade resulted, in whole or in part, from the occurrence of the Restructuring Event or any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

6.6.5 The Issuer (or the Guarantor, as the case may be) undertakes to contact the relevant Rating Agency immediately following the reduction, or where applicable the refusal to assign a rating of at least investment grade, in each case referred to in Condition 6.6.4, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Issuer (or the Guarantor, as the case may be) shall notify the Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

6.6.6 The Trustee shall not be obliged to monitor compliance by the Issuer and the Guarantor with this Condition 6.6 and the Trustee shall be entitled to rely absolutely, without further investigation or enquiry and without liability to any persons, on any notice or certificate of the Issuer or the Guarantor provided under this Condition 6.6.

6.7 Redemption at the Option of Instrumentholders and Exercise of Instrumentholders' Options

If Optional Put Option is specified in the relevant Final Terms as applicable, the Issuer shall, at the option of the holder of any such Instrument, upon the holder of such Instrument 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 relevant 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 such Instrument with any Paying Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent within the Instrumentholders' Option Period (as specified in the relevant 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.

6.8 Cancellation

All Instruments redeemed pursuant to any of the foregoing provisions will be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto). All Instruments purchased by or on behalf of the Issuer, the Guarantor or any of their respective subsidiary undertakings may, at the option of the Issuer, be held, resold or surrendered together with all unmatured Coupons and all unexchanged Talons attached to them to a Paying Agent for cancellation. Any Instruments so purchased or otherwise acquired, for so long as they are held by the Issuer, the Guarantor or any of their respective subsidiary undertakings, 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 12.

7 Payments and Talons

7.1 Payments

Payments of principal and interest in respect of Instruments will, subject as mentioned below, be made against presentation and surrender of the relevant, Instruments (in the case of all payments of principal and, in the case of interest, as specified in Condition 7.5.4) or Coupons (in the case of interest, save as specified in Condition 7.5.4), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre for that currency; provided that in the case of euro, the transfer shall be in a city in which banks have access to the TARGET System.

7.2 Payments in the United States

Notwithstanding the above, if any Instruments are denominated in U.S. dollars, payments in respect of them may be made at the specified office of any Paying Agent in New York City in the same manner as specified above if (a) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Instruments in the manner provided above when due, (b) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (c) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

7.3 Payments subject to Fiscal Laws etc.

Save as provided in Condition 8, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Instrumentholders or Couponholders in respect of such payments.

7.4 Appointment of Agents

The Issuing and Paying Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer and the Guarantor reserve 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 or the Calculation Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Calculation Agent where the Conditions so require one and (iii) 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 the relevant stock exchange or other relevant authority. As used in these Conditions, the terms "**Issuing and Paying Agent**", "**Calculation Agent**", and "**Paying Agent**" include any additional or replacement Issuing and Paying Agent, Calculation Agent or Paying Agent appointed under this Condition.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Instruments denominated in U.S. dollars in the circumstances described in Condition 7.2.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Instrumentholders in accordance with Condition 15.

7.5 Unmatured Coupons and unexchanged Talons

7.5.1 Upon the due date for redemption of any Instrument, unmatured Coupons relating to such Instrument (whether or not attached) shall become void and no payment shall be made in respect of them.

7.5.2 Upon the due date for redemption of any Instrument, any unexchanged Talon relating to such Instrument (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

7.5.3 Where any Instrument which provides that the relevant Coupons are to become void upon the due date for redemption of those Instruments is presented for redemption without all unmatured Coupons, and where any Instrument is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

7.5.4 If the due date for redemption of any Instrument is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Instrument. Interest accrued on an Instrument that only bears interest after its Maturity Date shall be payable on redemption of that Instrument against presentation of that Instrument.

7.6 Non-business days

If any date for payment in respect of any Instrument or Coupon 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 commercial banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" in the relevant Final Terms and:

(i) (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

(ii) (in the case of a payment in euro), which is a TARGET Business Day.

7.7 Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Instrument, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (but excluding any Coupons which may have become void pursuant to Condition 9).

8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Instruments and the Coupons or under the Guarantee shall be 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 Kingdom or any political sub-division of the United Kingdom or any authority in or of the United Kingdom having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer (or, as the case may be, the Guarantor) shall pay such additional amounts of principal and interest as will result in the receipt by the Instrumentholders or, as the case may be, the Couponholders of the amounts which would otherwise have been received by them in respect of the Instruments or Coupons had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Instrument or Coupon presented for payment:

(a) by or on behalf of a holder who is liable to such taxes or duties in respect of such Instrument or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Instrument or Coupon; or

(b) by or on behalf of a holder 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 such Instrument or Coupon for payment on the last day of such period of 30 days; or

(d) 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).

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid in respect of the Instruments by or on behalf of the Issuer (or the Guarantor, as the case may be), will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (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 and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer, the Guarantor nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Instrument or Coupon 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 15 that, upon further presentation of the Instrument or Coupon 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 (i) “**principal**” shall be deemed to include any premium payable in respect of the

Instruments, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Optional Put Redemption Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it or pursuant to Condition 7 or any amendment or supplement to it and (iii) "**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.

9 Prescription

Instruments and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless presented for payment 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.

10 Events of Default

10.1 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 principal 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 Early Redemption Amount together (if applicable) with accrued interest 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 or the Guarantor 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 or in relation to Condition 10.1(c)) 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 (or the Guarantor, as the case may be) by the Trustee; or

(c) **Breach of Gearing Ratio:** the Net Debt to RAV Ratio (as defined in Condition 10.3) on any Relevant Calculation Date (or, in the case of forward-looking ratios referred to in Condition 10.2.1, as at the last day of the 12-month period commencing on the day after such Relevant Calculation Date) is equal to or greater than 70 per cent.; provided that, an Event of Default under this Condition 10.1(c) may be cured by the Guarantor by its exercise of a Gearing Cure Right (as described in Condition 10.2); or

(d) **Cross-Acceleration:** if (i) any other present or future Indebtedness for Borrowed Money of the Issuer or the Guarantor becomes due and payable prior to its stated maturity by reason of any event of default, howsoever described, (ii) any amount in respect of such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) default is made by the Issuer or the Guarantor in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; provided that, the aggregate amount of the Indebtedness for Borrowed Money in respect of which one or more of the events mentioned above in this Condition 10.1(d) have occurred equals or exceeds £50,000,000 (or its equivalent in any other currency); or

(e) **Security Enforced:** any Security, present or future, created or assumed by the Issuer or the Guarantor for or in respect of Indebtedness for Borrowed Money and securing an amount equal to or exceeding £50,000,000 (or its equivalent in any other currency) becomes enforceable and any step is taken to enforce it (including the taking of possession or appointment of a receiver, administrative receiver, administrator, manager or other similar person) and in any such case is not discharged or stayed within a period of 90 days; or

(f) **Winding-up:** a resolution is passed, or a final order of a court in the United Kingdom is made and, where possible, not discharged or stayed within a period of 90 days, that the Issuer or the Guarantor be wound up or dissolved; or

(g) **Enforcement Proceedings:** attachment is made of the whole or substantially the whole of the assets or undertaking of the Issuer or the Guarantor 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 the Guarantor or an administration or similar order is made in relation to the Issuer or the Guarantor and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or

(h) **Insolvency:** the Issuer or the Guarantor ceases to carry on all or substantially all of its business or is unable to pay its debts within the meaning of Section 123(1)(e) or Section 123(2) of the Insolvency Act 1986; or

(i) **Bankruptcy:** the Issuer or the Guarantor is adjudged bankrupt or insolvent by a court of competent jurisdiction in its country of incorporation; or

(j) **Guarantee:** the Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect,

provided that in the case of Condition 10.1(b) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Instrumentholders.

Any such notice by the Trustee to the Issuer shall specify the serial number(s) of the Instrument(s) concerned.

10.2 Calculation Undertaking and Gearing Cure Right

10.2.1 For so long as any Instrument or Coupon remains outstanding (as defined in the Trust Deed), the Guarantor shall: (i) as soon as reasonably practicable following (A) each Relevant Calculation Date (as defined in Condition 10.3), calculate (or procure the calculation of) the Net Debt to RAV Ratio as at that Relevant Calculation Date and (B) each Relevant Calculation Date falling on the last day of each financial year of the Guarantor, calculate (or procure the calculation of) the Net Debt to RAV Ratio on a forward-looking basis as at the last day of the 12-month period commencing on the day after such Relevant Calculation Date; and (ii) provide the Trustee, within 180 days in respect of the end of the financial year or 90 days in respect of the financial half-year, following each Relevant Calculation Date, a certificate (a "**Compliance Certificate**") signed by any one director of the Guarantor stating the Net Debt to RAV Ratio as at each such Relevant Calculation Date and, where applicable, on a forward-looking basis as described above, and confirming whether or not there is a breach of the maximum Net Debt to RAV Ratio.

10.2.2 If a Compliance Certificate provided to the Trustee in respect of any Relevant Calculation Date shows that there is a breach of the maximum Net Debt to RAV Ratio under Condition 10.1(c), any direct or indirect shareholder of the Guarantor may provide or procure the provision of, on or prior to the day falling 30 days after the delivery of the relevant Compliance Certificate, Additional Equity in an amount (a "**Gearing Cure Amount**") at least sufficient to cure such breach by the application of such Additional Equity in prepayment or purchase of Financial Indebtedness of the Guarantor Group such that, within such 30 day period, the Net Debt to RAV Ratio is (or, as applicable, is forecast on a forward-looking basis to be) less than 70 per cent. (the right to so provide or procure and utilise such Gearing Cure Amount, a "**Gearing Cure Right**").

10.2.3 Any such Gearing Cure Amount must be applied on or prior to the day falling 30 days after the delivery of the relevant Compliance Certificate.

10.2.4 The exercise of a Gearing Cure Right shall be limited to no more than three times in any five-year period, and shall not be exercisable in respect of consecutive Relevant Calculation Dates.

10.2.5 On application of a Gearing Cure Amount in accordance with this Condition 10.2, the Guarantor shall re-calculate (or procure the re-calculation of) the Net Debt to RAV Ratio on such 30th day and promptly provide the Trustee with a further certificate, signed by any one director of the Guarantor, stating the Net Debt to RAV Ratio on such 30th day and certifying that an Event of Default under Condition 10.1(c) is not continuing. If, after the Net Debt to RAV Ratio is re-calculated in respect of such 30th day, the breach has been so cured, the ratio shall be deemed to have been satisfied on the date of the relevant Compliance Certificate as though no breach had ever occurred and the related Event of Default under Condition 10.1(c) shall be deemed not to have occurred.

10.2.6 The Trustee shall assume, unless notified otherwise by the Issuer or the Guarantor, that there has been no breach of the ratio provided in Condition 10.1(c) and, for the avoidance of doubt, the Trustee shall not monitor compliance by the Issuer and the Guarantor with Condition 10.1(c) or this Condition 10.2 and the Trustee shall be entitled to rely absolutely, without further investigation or enquiry and without liability to any persons, on any Compliance Certificate or other certificate of the Issuer or the Guarantor provided under this Condition 10.2.

10.3 Definitions

In these Conditions:

"**Additional Equity**" means any amount subscribed in cash for shares in the Guarantor or any other capital contribution to, or subscription for subordinated debt of, the Guarantor, provided in each such case that such cash is paid to the Guarantor.

"**Applicable Accounting Principles**" means International Financial Reporting Standards (IFRS) or generally accepted accounting principles in the United Kingdom that are applied as if frozen as at 31 March 2016.

"**Authorised Investments**" means:

(a) securities issued by the government of the United Kingdom;

(b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, or other investments with similar liquidity and effective credit quality characteristics to time deposits, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-term Rating or (if the relevant Authorised Investments have an original maturity in excess of one year) the Minimum Long-term Rating from at least one of Fitch, Moody's or S&P;

(c) any other obligations provided that in each case the relevant investment has the Minimum Short-term Rating or (if the relevant Authorised Investments have an original maturity in excess of one year) the Minimum Long-term Rating from at least one of Fitch, Moody's or S&P and is denominated in sterling or has been hedged pursuant to a Hedging Arrangement; and

(d) any other money market funds having the Minimum Short-term Rating from at least one of Fitch, Moody's or S&P.

"**Cash**" means, at any time, cash denominated in sterling, euro, U.S. dollars or any other major international currency in hand or at bank and (in the latter case) credited to a bank account in the name of a member of the Guarantor Group and to which a member of the Guarantor Group is alone (or together with other members of the Guarantor Group) beneficially entitled and for so long as:

(a) that cash is repayable on demand;

(b) repayment of that cash is not contingent on the prior discharge of any other Financial Indebtedness of any member of the Guarantor Group or of any other person whatsoever or on the satisfaction of any other condition;

(c) there is no Security over that cash except comprising a netting or set-off arrangement (including under any Hedging Arrangement) entered into by members of the Guarantor Group in the ordinary course of their banking arrangements;

(d) the cash is freely available to be applied in repayment or prepayment of the Instruments; and

(e) the cash has not accrued as a result of, nor is attributable to, an Overpayment.

"**Commodity Hedging Agreement**" means any forward, futures, spot deferred or option contract, swap or other similar agreement or arrangement with respect to the price of any commodity produced, transported or used by the Guarantor or any member of the Guarantor Group in relation to its business.

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"**Distribution Licence**" has the meaning given to such term in Condition 6.6.3.

"**Finance Lease**" means any lease or hire purchase contract, a liability under which would, in accordance with Applicable Accounting Principles, be treated as a balance sheet liability (other than a lease or hire purchase agreement which would (in accordance with Applicable Accounting Principles) have been treated as an operating lease prior to 31 March 2016).

"**Financial Indebtedness**" means (without double counting), any indebtedness for or in respect of:

(a) moneys borrowed or raised;

(b) any acceptances under any acceptance or bill discount credit facility or dematerialised equivalent;

(c) any note purchase facility or the issue of bonds, notes, instruments, debentures, loan stock or any similar instrument excluding Trade Instruments;

(d) the amount of any liability in respect of any Finance Lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any termination amount (but not the marked-to-market value) due from any member of the Guarantor Group in respect of a Hedging Arrangement;

(g) any counter-indemnity obligations in respect of a guarantee, instrument, standby or documentary letter of credit or any other instrument (but not any Trade Instruments) issued by a bank or financial institution of an entity which is not a member of the Guarantor Group in each case, in respect of indebtedness of a type referred to within one of the other paragraphs of this definition;

(h) any amount raised by the issue of shares which are redeemable (other than at the option of the Issuer or Guarantor) before the Maturity Date or are otherwise classified as borrowings under the Applicable Accounting Principles;

(i) any amount raised under any other transaction (including any forward sale or purchase agreement, sale and sale back or sale and lease back agreement) having the commercial effect of a borrowing; and

(j) the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (i) above.

The term "Financial Indebtedness" shall not, for the avoidance of doubt, include any obligations in respect of early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions (or guarantees, surety bonds, letters of credit or other instruments in relation to any such obligations, contributions or claims).

"**Fitch**" means Fitch Ratings Limited or any of its affiliates or successors.

"**Guarantor Group**" means the Issuer, the Guarantor and each of the Guarantor's other Subsidiaries from time to time.

"**Hedging Arrangement**" means any Interest Rate Agreement, Currency Agreement, Commodity Hedging Agreement or any other similar agreement or any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (including but not limited to fluctuations with respect to any index or the price of any commodity or any combination of the foregoing).

"**Holding Company**" has the meaning given to such term in section 1159 of the Companies Act 2006.

"**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of borrowed money or any liability under or in respect of any acceptance or acceptance credit or instruments, bonds, debentures, debenture stock, loan stock or other securities.

"**indexed**" means, in respect of any reference to an amount, that amount (as previously indexed) as such amount may be adjusted up or down at the beginning of each calendar year by a percentage equal to the amount of percentage increase or, as the case may be, decrease in the relevant index for such year.

"**Interest Rate Agreement**" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"**Maturity Date**" has the meaning specified in the relevant Final Terms.

"**Minimum Long-term Rating**" means, (a) in respect of any person, such person's long term unsecured and unsubordinated debt obligations being rated, or (b) in respect of any instrument, such instrument being rated, in the case of Moody's, "Baa1"; in the case of S&P, "BBB+"; and, in the case of Fitch, "BBB+", or their respective equivalents from time to time.

"**Minimum Short-term Rating**" means,

(a) in respect of (i) any person, such person's short term unsecured and unsubordinated debt obligations being rated, or (ii) any instrument, such instrument being rated, in the case of Moody's, "Prime-2"; in the case of S&P, "A-2"; and, in the case of Fitch, "F2" or their respective equivalents from time to time; or

(b) in respect of any person or instrument, such lower rating level notified in writing by the Guarantor to the Trustee which, in the opinion of the Guarantor having discussed with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch negative (or equivalent) of the then current ratings ascribed to any Tranche of Instruments,

provided that in each case no rating shall be required from any such Rating Agency that is not then rating the Instruments.

"**Moody's**" means Moody's Investors Service Limited or any of its affiliates or successors.

"**Net Debt**" means, as at any particular time, the aggregate principal amount (which, for the avoidance of doubt, here means the original face amount (in sterling equivalent)) of all outstanding (or, in respect of a future date, forecast to be outstanding) obligations of the Guarantor Group (on a consolidated basis) in respect of Financial Indebtedness:

(a) excluding any Subordinated Debt;

(b) including, in the case of Finance Leases only, the capitalised value thereof;

(c) including (on a net basis) any accretion portion of any Financial Indebtedness which is indexed and any accretion under any index-linked Hedging Arrangement; and

(d) excluding any un-crystallised mark-to-market amount relating to any Hedging Arrangement (other than Hedging Arrangements having the commercial effect of annuity payments),

less Cash and Authorised Investments of the Guarantor Group and so that no amount shall be included or excluded more than once provided that, in relation to any amount denominated other than in sterling (the "**foreign currency amount**"), such foreign currency amount shall be expressed in terms of sterling, calculated on the basis of the applicable FX Rate,

where "**FX Rate**" means, in relation to the amounts referred to in this definition:

(a) if hedged pursuant to a Treasury Transaction, the exchange rate specified therein; and

(b) if not hedged, the spot rate of exchange for the purchase of the relevant currency with sterling in the London foreign exchange market at or about 11:00 a.m. on the date of such calculation.

"**Net Debt to RAV Ratio**" means, on each Relevant Calculation Date (or any other day on which these Conditions require such ratio to be calculated), the ratio of Net Debt to RAV as at such Relevant Calculation Date (or such other day, as applicable) or, in the case of forward-looking ratios in respect of days falling after such Relevant Calculation Date, the forecast ratio as at the last day of the 12-month period commencing on the day after each financial year end of the Guarantor.

"**Out-turn Inflation**" means, in respect of any period for which the relevant indices have been published, the actual inflation rate (or rates) applicable to such period determined by reference to movements in any applicable index (or indices) as specified by the Regulator from time to time.

"**Overpayment**" means any amount recovered from customers by the Guarantor in respect of any financial year in excess of any limit prescribed by the Regulator in respect of such period.

"**Periodic Review**" means the periodic review of gas distribution price controls conducted by the Regulator from time to time.

"**RAV**" means, in relation to any date:

(a) the regulatory asset value in respect of the Guarantor as published in the latest Periodic Review in respect of the most recent 31 March (or such other definitive date within a Periodic Review period as may be set by the Regulator in respect of future Periodic Review periods) (in each case, a "**Definitive Date**"; provided that, (i) for any date falling from and excluding a Definitive Date to but excluding the next Definitive Date within a Periodic Review period, the regulatory asset value shall be the Guarantor's good faith interpolation of its regulatory asset value based upon the regulatory asset value for each such Definitive Date; and (ii) for any date in respect of which there has been no final proposal by the Regulator, the regulatory asset value shall be the Guarantor's good faith, present estimate of its regulatory asset value on the relevant date; plus

(b) (without double counting) amounts of expenditure which have been logged up through a Recognised Ofgem Mechanism for subsequent recognition in the regulatory asset value in a future Periodic Review period.

in each case adjusted by Out-turn Inflation.

"**Recognised Ofgem Mechanism**" means any of: (i) any correction mechanism employed by the Regulator to adjust the Licence income limits for any previous over- or under-recovery against the Guarantor's regulatory allowed revenue, including any income adjusting event exceeding the threshold determined from time to time by the Regulator; (ii) logging up to RAV, where the Regulator has approved the relevant expenditure; or (iii) any other similar mechanism as agreed from time to time between the Regulator and the Guarantor.

"**Regulator**" means the Gas and Electricity Markets Authority (or any successor thereto).

"**Relevant Calculation Date**" means the last day of each financial year and the last day of each financial half-year of the Guarantor.

"**Security**" has the meaning given to such term in Condition 3.

"**S&P**" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies Inc. or any of its affiliates or successors.

"**Subordinated Debt**" means any indebtedness of any member of the Guarantor Group which is fully subordinated to the Instruments in a binding and enforceable agreement between the relevant borrower of such indebtedness and the lender of such indebtedness.

"**Subsidiary**" means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

"**Trade Instruments**" means any performance bonds or other similar instruments, or advance payment bonds or documentary letters of credit issued in respect of the obligations of any member of the Guarantor Group arising in the ordinary course of trading of that member of the Guarantor Group.

"**Treasury Transaction**" means any currency or interest rate purchase, cap or collar agreement, forward rate agreements, interest rate or currency or future or option contract, foreign exchange or currency purchase or sales agreement, interest rate swap, index-linked swap, currency swap or combined interest rate and currency swap agreement and any other similar agreement or any derivative transaction.

11 Enforcement

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

(a) it shall have been so directed by an Extraordinary Resolution or in writing by Instrumentholders holding at least one-quarter of the principal amount of the Instruments outstanding; and

(b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

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

12 Meetings of Instrumentholders, Modifications and Substitution

12.1 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. Such a meeting may be convened by Instrumentholders holding not less than 10 per cent. in principal amount of the Instruments for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Instruments for the time being outstanding, or at any adjourned meeting two or more persons being or representing Instrumentholders whatever the principal amount of the Instruments held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Instruments or any date for payment of interest on the Instruments, (ii) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Instruments, (iii) to reduce the rate or rates of interest (save for any adjustments made in accordance with Condition 4.4) 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, (iv) 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 (save for any adjustments made in accordance with Condition 4.4), (v) to vary any method of calculating the Final Redemption Amount, the Early Redemption Amount (Tax), the Residual Holding Redemption Amount, the Optional Redemption Amount (Call), the Option Redemption Amount (Put) or the Optional Put Redemption Amount (vi) 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 or (vii) to change the currency of payment of the Instruments or the Coupons, (viii) to modify the provisions concerning the quorum required at any meeting of Instrumentholders or the majority required to pass an Extraordinary Resolution, or (ix) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than one third of the principal amount of the Instruments for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders. The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 95 per cent. in principal amount of the Instruments outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Instrumentholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Instrumentholders. The Issuer may convene a meeting of Instrumentholders jointly with the holders of all other 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).

12.2 Modification of the Trust Deed

(a) The Trustee may agree, without the consent of the Instrumentholders or Couponholders, to (i) 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 (ii) 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.

(b) The Trustee shall agree, without the consent of the Instrumentholders or Couponholders, to the addition of any covenants or restrictions applicable to the Issuer and/or the Guarantor under the Instrument provided that: (i) a director of each of the Issuer and the Guarantor has certified to the Trustee that the addition of any such covenants or restrictions applicable to the Issuer and/or the Guarantor under the Instruments is not materially prejudicial to Instrumentholders (upon which certificate the Trustee may rely absolutely, without further investigation and enquiry, and without liability to any persons) and (ii) in the opinion of the Trustee, such addition(s) will not have the effect of (x) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (y) increasing the obligations or duties of the Trustee under the Trust Deed, the Agency Agreement, the Instruments or the Coupons.

Any such modification, additional provisions, authorisation or waiver shall be binding on the Instrumentholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Instrumentholders as soon as practicable.

Pursuant to Condition 12.2 of the Instruments, the Issuer and Guarantor have reserved the right, at any time and without Instrumentholder consent, to modify these Conditions in order to introduce additional covenants or restrictions to the terms of the Instruments if necessary or desirable at the relevant time in order to enable or facilitate any holding company of the Guarantor to raise indebtedness (which, accordingly, would be structurally subordinated indebtedness).

12.3 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 or the Couponholders, to the substitution of certain other entities in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Instruments. In the case of such a substitution the

Trustee may agree, without the consent of the Instrumentholders or the Couponholders, to a change of the law governing the Instruments, the Coupons, the Talons 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.

12.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12) 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 or Couponholders and the Trustee shall not be entitled to require, nor shall any Instrumentholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Instrumentholders or Couponholders.

13 Replacement of Instruments, Coupons and Talons

If an Instrument, Coupon or Talon 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 such other Paying Agent as may from time to time be designated by the Issuer or the Guarantor for the purpose and notice of whose designation is given to Instrumentholders in accordance with Condition 15 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 Instrument, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer or the Guarantor on demand the amount payable by the Issuer or the Guarantor in respect of such Instruments, Coupons or further Coupons) and otherwise as the Issuer and the Guarantor may require. Mutilated or defaced Instruments, Coupons or Talons must be surrendered before replacements will be issued.

14 Further Issues

The Issuer may from time to time without the consent of the Instrumentholders or Couponholders create and issue further instruments having the same terms and conditions as the Instruments in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. 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.

15 Notices

All notices to the Instrumentholders will be valid if published in a daily English language newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Instruments in accordance with this Condition 15.

16 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor or any of their respective 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 the Guarantor or any of its subsidiary undertakings, parent undertakings, joint ventures or associated undertakings.

17 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.

18 Governing Law and Jurisdiction

(a) The Trust Deed, the Instruments and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.

(b) The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Instruments.

(c) Each of the Issuer and the Guarantor 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.

(d) Nothing in this Condition 18 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.

OVERVIEW OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Initial Issue of Instruments

If the Global Instruments are intended to be issued in NGN form, the Global Instruments will be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper. Depositing the Global Instruments 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.

If the Global Instruments are to be issued in NGN form, the Issuer shall confirm to the Issuing and Paying Agent and to the clearing systems whether or not such Global Instruments 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 such relevant Global Instrument is to be deposited with one of the ICSDs as Common Safekeeper.

Global Instruments which are issued in CGN form may be delivered on or prior to the original issue date of the Tranche to the Common Depositary.

If the Global Instrument is a CGN, upon the initial deposit of a Global Instrument with the Common Depositary for Euroclear and Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Instruments equal to the principal amount thereof for which it has subscribed and paid. If the Global Instrument is an NGN, the principal amount of the Instruments shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the principal amount of Instruments represented by the Global Instrument and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Instruments which are initially deposited with the Common Depositary or Common Safekeeper, as applicable, 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 held by such other clearing systems. Conversely, Instruments that are initially deposited with another clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of an Instrument represented by a Global Instrument must look solely to Euroclear, Clearstream, Luxembourg or an Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Instrument and in relation to all other rights arising under the Global Instruments, 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 Instrument and such obligations of the Issuer will be discharged by payment to the bearer of such Global Instrument in respect of each amount so paid.

The Trustee may call for any certificate or other document to be issued by Euroclear, Clearstream, Luxembourg or any other clearing system as to the principal amount of Instruments represented by a Global Instrument standing to the account of any person. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal amount of any other clearing system is clearly identified together with the amount of such holding. The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Euroclear, Clearstream, Luxembourg or any other clearing system and subsequently found to be forged or not authentic.

Exchange

1 Temporary Global Instruments

Each temporary Global Instrument will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms indicates that such Global Instrument is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme — Selling Restrictions*"), in whole, but not in part, for the Definitive Instruments defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Instrument or, if so provided in the relevant Final Terms, for Definitive Instruments.

2 Permanent Global Instruments

Each permanent Global Instrument will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Instruments*", in part for Definitive Instruments if the permanent Global Instrument is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System and any such clearing system 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 in fact does so.

In the event that a Global Instrument is exchanged for Definitive Instruments, such Definitive Instruments shall be issued in Specified Denomination(s) only. An Instrumentholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Instrument in respect of such holding and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or more Specified Denominations.

Accordingly, the 'exchangeable upon 40 days' notice' option at item 25 of the applicable Final Terms of any relevant Instruments should not be expressed to be applicable if the stated Specified Denomination of the Instruments includes language substantially to the following effect "(€100,000) and integral multiples of (€1,000) in excess thereof up to and including (€199,000)".

3 Partial Exchange of Permanent Global Instruments

For so long as a permanent Global Instrument is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Instrument will be exchangeable in part on one or more occasions for Definitive Instruments if principal in respect of any Instruments is not paid when due.

4 Delivery of Instruments

If the Global Instrument is a CGN, on or after any due date for exchange the holder of a Global Instrument may surrender such Global Instrument or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Instrument, or the part of that Global Instrument to be exchanged, the Issuer will (i) in the case of a temporary Global Instrument exchangeable for a permanent Global Instrument, deliver, or procure the delivery of, a permanent Global Instrument in an aggregate principal amount equal to that of the whole or that part of a temporary Global Instrument that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Instrument to reflect such exchange or (ii) in the case of a Global Instrument exchangeable for Definitive Instruments, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Instruments or, if the Global Instrument is an NGN, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, "**Definitive Instruments**" means, in relation to any Global Instrument, the Definitive Instruments for which such Global Instrument may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Instrument and a Talon). Definitive Instruments will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Instrument, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Instruments.

5 Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Instrument, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Instrument, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Instruments when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Instruments and permanent Global Instruments 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:

1 Payments

No payment falling due after the Exchange Date will be made on any Global Instrument unless exchange for an interest in a permanent Global Instrument or for Definitive Instruments is improperly withheld or refused. Payments on any temporary Global Instrument issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership. All payments in respect of Instruments represented by a Global Instrument in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Instruments, surrender of that Global Instrument to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Instrumentholders for such purpose. Each payment so made will to the relevant extent discharge the

Issuer's obligations to make the relevant payment in respect of the Instruments represented by that Global Instrument. If the Global Instrument is a CGN, a record of each payment so made will be endorsed on each Global Instrument, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Instruments. If the Global Instrument is an NGN, 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 principal amount of the Instruments recorded in the records of the relevant clearing system and represented by the Global Instrument will be reduced accordingly. Payments under the NGN will be made to its holder. 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. For the purpose of any payments made in respect of a Global Instrument, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 7.6 (*Non-business days*).

2 Prescription

Claims against the Issuer in respect of Instruments which are represented by a permanent Global Instrument will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

3 Meetings

The holder of a permanent Global Instrument shall (unless such permanent Global Instrument 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 Cancellation

Cancellation of any Instrument represented by a permanent Global Instrument which is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Instrument.

5 Purchase

Instruments represented by a permanent Global Instrument may only be purchased by the Issuer or any of its subsidiary undertakings if they are purchased together with the rights to receive all future payments of interest (if any) on those Instruments.

6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument shall be exercised by the Issuer giving notice to the Instrumentholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Instruments drawn in the case of a partial exercise of an option and accordingly no drawing of Instruments shall be required. 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 in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg either as a pool factor or as a reduction in principal amount, at their discretion) or any other clearing system (as the case may be).

7 Instrumentholders' Options

Any option of the Instrumentholders provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument may be exercised by the holder of the permanent Global Instrument giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the principal amount of Instruments in respect of which the option is exercised and at the same time, where the permanent Global Instrument is a CGN, presenting the permanent Global Instrument for notation. Where the Global Instrument is an NGN, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the principal amount of the Instruments recorded in those records will be reduced accordingly.

8 NGN principal amount

Where the Global Instrument is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Instruments, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the principal amount of the Instruments represented by such Global Instrument shall be adjusted accordingly.

9 Trustee's Powers

In considering the interests of Instrumentholders while any Global Instrument is held on behalf of 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 Global Instrument and may consider such interests as if such accountholders were the holders of the Instruments represented by such Global Instrument.

10 Events of Default

Each Global Instrument provides that the Trustee, at its discretion, may, and if so requested by holders of at least one-quarter in principal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution, shall cause such Global Instrument, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Issuer the principal amount of such Global Instrument which is 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 or the Guarantor 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.

11 Notices

So long as any Instruments are represented by a Global Instrument and such Global Instrument 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 publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Instrument.

Electronic Consent and Written Resolution

While any Global Instrument is held on behalf of a clearing system, then:

(a) approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 95 per cent. in principal amount of the Instruments outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Instrumentholders duly convened and held, and shall be binding on all Instrumentholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantor and the Trustee shall be entitled to rely (i) on consent or instructions given in writing directly to the Issuer, the Guarantor and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Instrument and/or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantor and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (ii) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any resolution passed in such manner shall be binding on all Instrumentholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Instruments is clearly identified together with the amount of such holding. None of the Issuer, the Guarantor or the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be used for general corporate purposes. If in respect of an issue of Instruments, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

DESCRIPTION OF THE GUARANTOR

Incorporation

National Grid Gas Distribution Limited ("**NGGD**") was incorporated in England and Wales on 23 March 2016 as a private limited company under the Companies Act 2006. NGGD's registered number is 10080864. The address of NGGD's registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is (+44) (0) 20 7004 3000.

Subsidiaries

NGGD is a newly created wholly owned subsidiary of National Grid Holdings One plc ("**NGHO**", an intermediate holding company between National Grid plc ("**National Grid**" or "**NG**") and National Grid Gas plc ("**NGG**")), which, prior to Hive Out (as defined below), had no previous liabilities. For further information see "*Disposal of National Grid Gas plc's gas distribution business - Overview of disposal*" below.

NGGF is a wholly owned subsidiary of NGGD.

Directors

As at the date of this Prospectus, the Directors of NGGD and their principal activities outside NGGD are as follows:

Name	Principal Occupation	Principal Activities outside NGGD
Andrew J. Agg	Director	Director of NGHO, NGGD, Gas Distribution Property Holdings Limited and certain other subsidiaries of National Grid plc.
Catherine E. D. Bell	Director	Non-Executive Director of NGG and National Grid Electricity Transmission plc; governor of the London School of Economics and trustee of the Charity for Civil Servants.
Malcolm C. Cooper	Director	Director of NGGD, Gas Distribution Property Holdings Limited and certain other subsidiaries of National Grid plc.
Clive H. Elphick	Director	Non-Executive Director of NGG and National Grid Electricity Transmission plc; director of Elphick Consulting Ltd, Perceptive Engineering Ltd, The Lancashire Wildlife Trust Ltd, England Environment Agency, Chairman (pension committee) of England Environment Agency, Judge at the Competition Appeals Tribunal, trustee of National Museums Liverpool, senior adviser to Cambridge Economic Policy Associates and member of England Committee of Wildlife Trusts.
Lucy N. Shaw	Director	Director of National Grid plc, NGGD and certain other subsidiaries of National Grid plc.; member of Audit Committee of English Heritage and non-executive director of Ellevio AB.
Christopher Train	Director	Director of NGGD, Gas Distribution Property Holdings Limited, GO15. Reliable and Sustainable Power Grids.

The business address of each of the Directors of NGGD is 1-3 Strand, London WC2N 5EH.

There are no potential conflicts of interest between the duties to NGGD of each of the Directors listed above and their private interests or other duties.

Disposal of National Grid Gas plc's gas distribution business

Overview of disposal

National Grid is currently in the process of implementing a disposal of a majority stake in its gas distribution business (the "**Gas Distribution Business**"), which was first publicly announced by National Grid in November 2015. The on-going disposal of the Gas Distribution Business can be summarised into two key stages:

1. firstly, the transfer (which was completed on 1 October 2016) of (i) the Gas Distribution Business, (ii) NGG's transporter licence granted by the Office of Gas and Electricity Markets ("**Ofgem**") relating to the Gas Distribution Business, (iii) NGG's shareholding in its wholly-owned subsidiary NGGF and (iv) certain liabilities relating to the Gas Distribution Business, in each case to NGGD, a newly created wholly-owned subsidiary of NGHO (the "**Hive Out**"). Additionally, on the completion of Hive Out, NGG's shareholding in Xoserve Ltd ("**Xoserve**") relating to the Gas Distribution Business was cancelled and NGGD was issued with the equivalent proportion of shares in Xoserve; and

2. secondly, the subsequent sale (which was agreed on 8 December 2016) of NGGD to a holding company ("**HoldCo**") which is indirectly jointly owned by NGHO as a minority stakeholder (holding 39 per cent.) and a third party acquirer (as described further below) (which has agreed to acquire a controlling 61 per cent. equity interest in the Gas Distribution Business), which is expected to complete in the first half of 2017. Consequentially, NGGD shall become part of a standalone structure outside of National Grid's consolidated group (as shown in Figures A and B below) and National Grid shall become an (indirect) minority shareholder.

The purpose of stage 1 was to separate the Gas Distribution Business from NGG's gas transmission business in advance of its subsequent sale, and this separation was completed on 1 October 2016 (see "*Hive Out*" below for further information).

In conjunction with stage 1, NGGF issued the following instruments during September 2016:

- £650,000,000 Fixed Rate Instruments due 2021 (ISIN: XS1492680811);
- €750,000,000 Fixed Rate Instruments due 2024 (ISIN: XS1493320656);
- £850,000,000 Fixed Rate Instruments due 2028 (ISIN: XS1492680902);
- £700,000,000 Fixed Rate Instruments due 2038 (ISIN: XS1492681033); and
- £800,000,000 Fixed Rate Instruments due 2046 (ISIN: XS1492681116),

(together, the "**Existing MTN Instruments**").

The Existing MTN Instruments were initially guaranteed by NGG however, upon completion of Hive Out on 1 October 2016, and pursuant to the terms and conditions of the Existing MTN Instruments, NGGD acceded as guarantor of the Existing MTN Instruments, and NGG was simultaneously released from its guarantee obligations in respect thereof.

In connection with Hive Out, NGGD also entered into a number of loan financing arrangements.

Following completion of stage 1, NGG completed the novation, or 'transfer', to NGGF (with the benefit of an unconditional guarantee from NGGD) of approximately £401 million (aggregate accreted face value) (having an aggregate original face value £300 million) of additional inflation-linked debt maturing between 2039-2048 (which is comprised of three separate tranches).

The intention of the above steps was to establish an appropriate capital structure in NGGD, and to leave NGG with an appropriate amount of debt finance relative to its remaining gas transmission business.

On 8 December 2016, National Grid signed an agreement with a consortium comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation (a Chinese sovereign wealth fund), Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships (the "**Consortium**") for the sale of a 61 per cent. equity interest in the Gas Distribution Business. Completion of the sale is conditional on the receipt of merger clearance from the European Commission. Subject to satisfaction of this condition, it is expected that the transaction will complete during the first half of 2017 (the "**Sale Completion Date**").

National Grid and the Consortium have also expressed an interest in relation to the potential future sale by National Grid and purchase by the Consortium of an additional 14 per cent. equity interest in the Gas Distribution Business.

It is intended that, as at the Sale Completion Date, the target total consolidated debt in NGGD and its subsidiaries (on a nominal amount basis) should represent around 65 per cent. of the RAV of the Gas Distribution Business.

Diagrammatic overview of sale of NGGD

As shown in Figure A below, (i) upon Hive Out completion, NGG's shareholding in NGGF was transferred to NGGD such that NGGF became a wholly-owned subsidiary of NGGD and (ii) insofar as it relates to the Existing MTN Instruments, NGGD acceded as guarantor and NGG was simultaneously released from its guarantee obligations in respect thereof.

Figure A: Post-Hive Out of the Gas Distribution Business

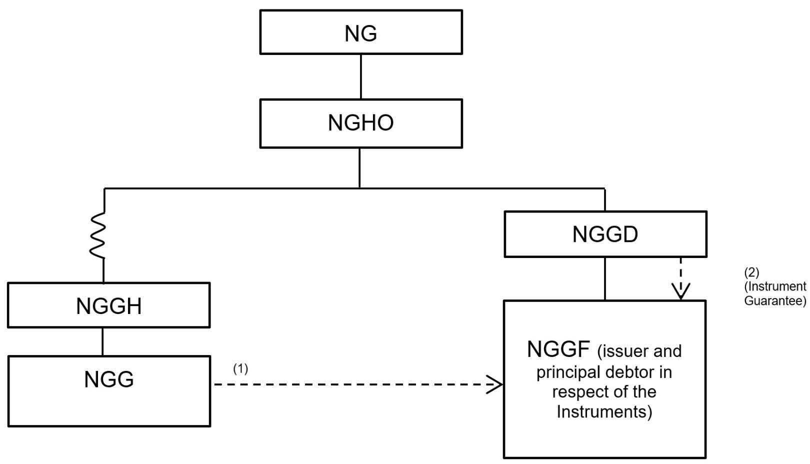
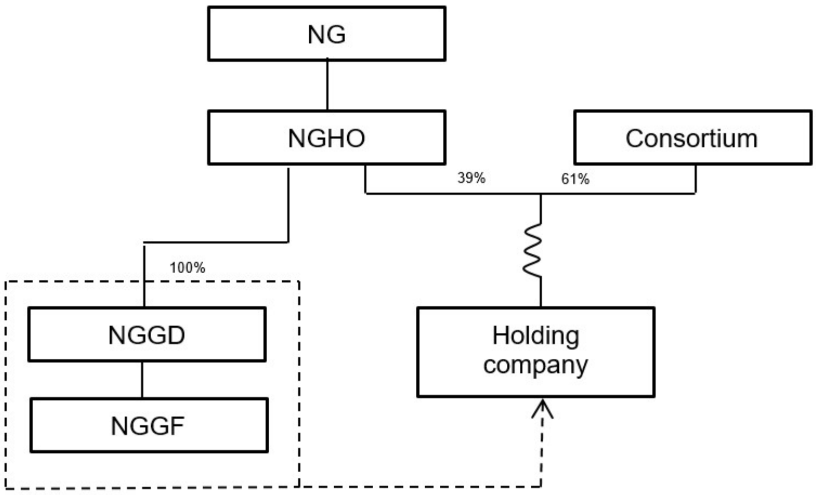


Figure B shows the establishment of HoldCo, as described in stage 2 of the "*Overview of disposal*" section above:

Figure B: Establishment of HoldCo and sale of NGGD and its subsidiaries



Hive Out

On 1 October 2016, following consent from Ofgem in accordance with section 8AA of the Gas Act 1986, NGG transferred to NGGD: (i) the Gas Distribution Business, (ii) a transporter licence relating to the Gas Distribution Business, (iii) NGG's shareholding in NGGF and (iv) certain liabilities relating to the Gas Distribution Business. Additionally, on the completion of Hive Out, NGG's shareholding in Xoserve relating to the Gas Distribution Business was cancelled and NGGD was issued with the equivalent proportion of shares in Xoserve[1]. Certain other parts of NGG's business activities did not form part of the Hive Out or subsequent disposal, notably including (i) NGG's high pressure gas national transmission system ("**NTS**")[2], (ii) the gas transporter licence in respect of its NTS gas transportation activities and (iii) National Grid Metering Ltd ("**NGM**"), as to each of which NGG continues to retain full ownership and control.

The beneficial interest in properties owned by NGG and required for the operations of NGGD were transferred to NGGD at Hive Out. The process of legal transfers of the properties will commence with the transfer of 180 major sites to NGGD. The transfer process is expected to continue for a period of 3 years post-Hive Out.

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[1] Xoserve is a common service provider for services and systems to all gas transporters. Xoserve's shares are held by NGG, NGGD and the other gas distribution networks in agreed proportions. Prior to Hive Out, NGG held shares representing 56.57 per cent. of Xoserve: 45.57 per cent. related to the Gas Distribution Business and were effectively acquired by NGGD at Hive Out completion, while the remaining 11 per cent. relate to National Grid's gas transmission business and were retained by NGG.

[2] NTS connects eight distribution networks and third party independent systems for onward transportation of gas to end customers as well as interconnectors.

NGG participated in two main pension arrangements for the provision of pension benefits to its employees who transferred to NGGD at Hive Out (estimated number shown in brackets below) and former employees:

- the National Grid UK Pension scheme (the "**DB scheme**") - a funded defined benefits scheme set up under trust and governed by a trust deed and rules (estimated to be approximately 1,700 current employees in addition to pensioners and deferred members); and

- the National Grid YouPlan (the "**DC plan**") - a defined contributions scheme set up under trust and governed by a trust deed and rules (estimated to be approximately 2,500 current employees).

National Grid negotiated an agreement with the trustee of the National Grid UK Pension Scheme, which had total pension liabilities of £16,560m calculated in accordance with IAS 19 at 31 March 2016 (and before taking into account pension scheme assets), under which the scheme will separate into three sections, with NGGD becoming the sole participating employer in respect of the section relating to NGGD.

Insurance is purchased as a combined programme on behalf of National Grid (including NGGD) and the vast majority of operational insurable risks are placed through wholly-owned captive insurers.

As NGGD remains a wholly owned National Grid subsidiary until the completion of the sale of NGGD to HoldCo, National Grid will continue to insure NGGD under all existing applicable insurance policies until the Sale Completion Date. Uninsured or self-retained losses will be for the account of NGGD with effect from the date of the Sale Completion Date.

Access to any insurance previously provided by captive insurers will cease upon the Sale Completion Date.

Claims reported to National Grid's captive insurers before the Sale Completion Date, to the extent insured, will continue to be insured until the claim is closed. Uninsured or self-retained elements of reported claims, to the extent they would have otherwise been insured but for a policy deductible, excess, or franchise, or exhaustion of policy coverage/limits will be for the account of NGGD.

It will be the responsibility of NGGD to engage with insurance consultants and/or brokers to finalise and effect a separate insurance placement with effect from the Sale Completion Date.

Directors and officers liability and pension trustee liability policies are placed entirely with the external commercial insurance market.

A standalone construction insurance programme for the gas distribution strategic partnership work is also operative and solely relates to the Gas Distribution Business activities. The broker contract for this programme was novated to NGGD at Hive Out such that NGGD has the full benefit of this programme, which provides Construction "All Risks", Third Party Liability and Professional Indemnity insurances. This programme is provided entirely by external commercial insurance markets.

The Gas Distribution Business

For illustrative purposes, the following table shows the financial contribution of the Gas Distribution Business to the total financial position of NGG for the six-month period ended 30 September 2016.

Six-month period ended 30 September 2016			
	Total Gas Distribution Business (£m)	**Total NGG business** (£m)	**Total Gas Distribution Business as percentage of Total NGG business**
Revenue	913	1,440	63 per cent.
Operating Profit	381	478	80 per cent.
Property, Plant and	8,377	12,797	65 per cent.

Six-month period ended 30 September 2016			
	Total Gas Distribution Business (£m)	**Total NGG business** (£m)	**Total Gas Distribution Business as percentage of Total NGG business**
Equipment			
Capital Expenditure*	267	416	64 per cent.

* Capital Expenditure means the sum of Additions to Property, Plant and Equipment and Additions to Intangible Assets from the notes to National Grid Gas plc Accounts for the six-month period ended 30 September 2016 and Combined Historical Financial Information of the Gas Distribution Business for the six-month period ended 30 September 2016 (as applicable).

Source: National Grid Gas plc half year results statement for the six-month period ended 30 September 2016

The Gas Distribution Business is the largest distributor of gas in the UK, distributing gas to nearly 11 million householders and businesses. It owns and operates four regulated gas distribution networks covering a geographically defined service territory that spreads across East of England, North London, North West and West Midlands. This includes some of the largest and most densely populated cities in the UK, including London, Birmingham and Manchester.

As at the date of this Prospectus, the Gas Distribution Business's gas distribution networks had more than 130,000 kilometers of pipeline with an aggregate regulatory asset value ("**RAV**") of £8.7 billion, representing approximately 50 per cent. of the total regulated gas distribution assets in Great Britain and 14 per cent. of the total regulated UK energy infrastructure sector by RAV.

It is intended that, as at the Sale Completion Date, the target total consolidated debt in NGGD and its subsidiaries (on a nominal amount basis) should represent around 65 per cent. of the RAV of the Gas Distribution Business.

Overview of the Gas Distribution Business's gas distribution networks

As of 30 Sept. 2016	East of England	North London	North West England	West Midlands	Total
End connections (MM)	4.00	2.27	2.68	1.96	**10.92**
Gas distributed (mcm)	8,752	4,541	5,969	3,981	**23,244**
Length of pipes (km)	51,692	20,906	34,203	24,174	**130,975**
RAV (MM)	£2,987	£2,021	£2,079	£1,567	**£8,654**

Source: National Grid Information

NGG's NTS offtakes mark the majority of points at which gas enters the Gas Distribution Business's gas distribution networks. Offtakes normally comprise of an above ground site containing equipment for filtration, pressure management, measurement and odorisation as well as instrumentation and telemetry equipment that enable remote monitoring and control of the gas flows. The Gas Distribution Business owns and operates 49 offtakes through which it receives gas from the NTS. Gas also enters the gas distribution networks from sites such as biomethane injections points and gas storage cavities.

The gas distribution system consists of a series of variable pressure systems. From the offtake, gas enters the high pressure system. This cathodically protected network of steel pipes, with a total length of 4,983 kilometres, conveys gas at variable pressures between 7 and 70 bar. The high pressure system has flexibility such that pressure can be increased at times of low demand such as overnight and reduced at times of high demand. The ability to vary pressures in a fixed volume pipe creates an effective gas storage mechanism, known as linepack. The high pressure system also directly feeds certain large industrial gas users, such as power stations.

As the high pressure system nears end consumers, 596 high pressure reduction stations reduce the pressure to operating levels of below 7 bar, for entry into the intermediate and medium pressure system. With a total length of 17,201 kilometres, the intermediate and medium pressure system carries gas to towns and villages at pressures between 75 mbar and 7 bar. A total of 5,153 industrial and commercial 2 bar pressure reduction stations (2 bar PRS) of which approximately 600 are equipped with telemetry for control and monitoring purposes, also enable gas supply directly to some industrial and commercial users. As pressures decrease, pipeline specification also changes, typically reducing in diameter and transitioning from metallic to a polyethylene material.

The flow of gas into the final pressure tier, the low pressure distribution system, is regulated through one of the Gas Distribution Business's 52,350 district 2 bar PRS.

The low pressure distribution system, which operates within a range between 19 mbarg and 75 mbarg, is by far the largest part of the Gas Distribution Business pipeline system, representing a total of 108,671 kilometres of pipes and making up 83 per cent. of the total length. Low pressure mains are primarily made of polyethylene, cast iron, ductile iron or steel, and carry gas in the most highly populated areas.

From the low pressure distribution system, gas flows through an emergency control valve and a meter to the service pipes connected to end consumers' premises. The meter and the connecting pipework are outside the scope of the gas distribution network's regulated activities and therefore do not form part of the Gas Distribution Business.

Operating environment

In 2015/16 the gas throughput across the Gas Distribution Business was over 80 billion cubic metres ("**bcm**"), with gas coming from the U.K. Continental Shelf ("**UKCS**"), Norway and continental Europe through two interconnectors, and delivered as LNG, principally from Qatar but including a number of other sources. Imported gas made up around 58 per cent. of the Gas Distribution Business's total supply. There was also some gas provided as biomethane, created by the digestion of organic matter and connected directly to the gas distribution networks.

Demand for gas in the U.K. is lower than the peak in the early 2000s, though there has been a slight increase in the last two years.

Supplies from the UKCS are enjoying a respite from years of decline are expected to rise slightly over the next couple of years. However, in all cases, UKCS supply is expected to decline again by 2018 at the latest. Supplies from Norway remain strong in some scenarios but decline in others where there is greater supply from U.K. indigenous resources. A major uncertainty over the next few years will be the development of shale gas. Surveys indicate that there is a large volume of shale gas under various parts of the U.K., and there is significant support for its development from the United Kingdom Government, but it has not yet been proved how much gas can be recovered, and at what cost. Permission was granted in June 2016 to hydraulically facture (frack) a well in North Yorkshire and results from this exercise should provide some indication of the likely success of the shale industry. The published scenarios include shale gas projections ranging from no successful development up to a peak of over 30 bcm by 2031, nearly 50 per cent. of the total gas supply.

The different inputs in the scenarios considered lead to a requirement for imported gas that ranges from 32 per cent. to 93 per cent. by 2040. The requirement for imported gas, apart from Norwegian gas, could be met entirely by either LNG or continental gas, though some mixture of the two is probably more likely. The demand for gas, both at an annual level and to meet the winter peak, can be met without any requirement for new infrastructure, though this does not preclude the possibility that operators will chose to develop import or storage facilities for their own commercial reasons.

Operational infrastructure and Operating Model

The Gas Distribution Business is managed centrally from the Gas Distribution Control Centre located in Hinckley. An additional business service centre is currently being set up in Coventry to support the operations of the business following separation.

All aspects of workforce planning are handled centrally along with work scheduling, dispatch and data management. This enables the Gas Distribution Business to undertake all elements of work management from a single location, applying an integrated approach across each of the Gas Distribution Business's four gas distribution networks, driving consistent, standardised end-to-end operating processes in the delivery of its key activities.

Physical engineering work is delivered by geographically dispersed teams strategically deployed across the territory to keep the networks operating in line with customer requirements and regulatory commitments.

The NGGD operating model involves direct delivery functions remaining fundamentally the same and standalone corporate and business services functions filled principally with existing staff already involved in supporting the business within NGG. Around 90 per cent. of all NGGD employees transferred directly from their current roles within NGG into the standalone Gas Distribution Business, post Hive Out.

Credit Ratings

As at the date of this Prospectus, NGGD has been rated 'A3 (on review for downgrade)' by Moody's and 'A- (CreditWatch with negative implications)' by S&P.

A credit 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.

Regulatory Framework

The supply, transportation and shipping of gas in Great Britain are regulated under the Gas Act 1986 (the "**Gas Act**"). The regimes for gas and electricity are administered in Great Britain by a sectoral regulator, the Gas and Electricity Markets Authority ("**GEMA**") through its secretariat, the Office of Gas and Electricity Markets ("**Ofgem**") which was established by the Utilities Act 2000. In addition, the Health and Safety Executive is responsible for safety-related regulation of the gas transportation and LNG storage businesses.

The gas distribution businesses of the Guarantor is operated pursuant to a gas transporter licence (the "**Licence**") granted (or treated as granted) under the Gas Act.

The Gas Act and the Licence oblige the Guarantor to develop, maintain and operate an economic and efficient pipeline system for the conveyance of gas in Great Britain. These obligations also require the Guarantor to comply, so far as it is economical for it to do so, with all reasonable requests to connect to the respective systems and convey gas by means of those systems to any premises or other pipeline system. The Guarantor must also facilitate competition in the supply of gas in Great Britain. The Gas Act also provides the licensed businesses' statutory powers such as the right to bury the Gas Distribution Business's pipes under public highways and the ability to purchase land compulsorily in order to facilitate the conduct of its businesses.

The Licence sets out the responsibilities of the business in respect of charging, system access/use of system, metering and other specific obligations required for the proper functioning of the relevant activity and also restrict the revenues which the business may derive from its licensed activities (known as the "price controls"). The Licence also requires the Guarantor to conduct its transportation business in the manner best calculated to secure that neither the Gas Distribution Business (or any affiliate or related undertaking), any gas shipper or supplier nor any other gas transporter operating a distribution network obtains an unfair commercial advantage including, in particular, any advantage from a preferential or discriminatory arrangement.

The Licence can only be amended either in accordance with (i) the procedures contained in the Licence itself or (ii) the Gas Act. The Licence continues in force until determined by not less than 10 years' notice in writing given by GEMA or otherwise revoked in accordance with the terms of the Licence (such as in the event of financial default).

The Licence contains conditions which have the effect of "ring fencing" the Gas Distribution Business. These include:

(i) prohibiting the Guarantor from carrying on activities other than those permitted by the Licence;

(ii) requiring that each business has sufficient managerial and financial resources available to it to conduct the relevant licensed activities;

(iii) requiring the Guarantor to maintain an investment grade issuer credit rating;

(iv) prohibiting the Guarantor from creating indebtedness or entering into any other obligations (except in limited circumstances) other than on an arm's length basis on normal commercial terms for one of its permitted purposes;

(v) prohibiting the creation of "cross-default" obligations (i.e. those under which the licensee's liabilities can arise, be accelerated or increased by the default of a third party); and

(vi) prohibiting the Gas Distribution Business from giving or receiving any cross-subsidy from any other group business.

If the Guarantor is in default of any of these "ring fence" obligations, it is prohibited from declaring and paying a dividend.

The Gas Act provides that GEMA may impose legally enforceable orders or financial penalties on the Guarantor for contravening conditions of the Licence or contravening a relevant requirement of that Act or the Utilities Act 2000.

The level of revenue which the Gas Distribution Business may receive from the supply of gas transportation services is set out in the price control conditions contained in the Licence. The current price controls are set for a period of eight years by GEMA, with the agreement of the Guarantor (see "RIIO price controls" below). The price control includes a number of mechanisms to achieve its objectives, including financial incentives designed to encourage the Guarantor to continuously improve the cost and effectiveness of its services; manage and operate its networks efficiently; deliver high quality services to its customers and wider stakeholder community; and to invest in the development of the network in a manner that ensures long-term security of supply.

Details of the current price controls applicable to the Guarantor are given below.

RIIO price controls

On 1 April 2013, Ofgem introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs) ("**RIIO**"), with the first price control agreed under the new framework lasting for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK; however there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO, the outputs that the Guarantor delivers are clearly articulated and are integrally linked to the calculation of its allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

The six output categories are:

- *Safety*: ensuring the provision of a safe energy network;

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

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

- *Customer and stakeholder satisfaction*: maintaining high levels of customer satisfaction and stakeholder engagement and improving service levels;

- *Customer connections*: encouraging networks to connect customers quickly and efficiently; and

- *Social obligations*: extending the gas network to communities that are fuel poor where it is efficient to do so and introducing measures to address carbon monoxide poisoning incidents.

Within each of these output categories there are a number of primary and secondary deliverables, reflecting what the Guarantor's stakeholders want it to deliver over the coming price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to the Guarantor's allowed revenue, some linked to legislation, and others having only a reputational impact. Ofgem, using information submitted by the Gas Distribution Business along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as total allowable expenditure ("**totex**"), and is the sum of controllable operating expenditure ("**opex**"), capital expenditure ("**capex**") and replacement expenditure ("**repex**") under the previous price control periods.

A number of assumptions are necessary in setting these outputs, such as certain prices or the volume of work that will be needed. As a result, to protect the Guarantor and its customers from windfall gains and losses, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to allowed totex if actual prices or volumes differ from the assumptions. These mechanisms protect the Guarantor and its customers from windfall gains and losses.

Where the Guarantor under- or over-spends against the allowed totex there is a sharing factor. This means the under- or over-spend is shared between the Guarantor and its customers through an adjustment to revenues in a future year. This sharing factor provides an incentive for the Guarantor to provide the outputs as efficiently as it is able to keep a portion of the savings, with the remainder benefiting its customers.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in the Guarantor's business.

Allowed totex costs are then split between fast and slow money, a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control (except for U.K. Gas Distribution's repex which changes on a linear scale across the price control). The Gas Distribution Business is allowed to retain approximately 63 per cent. of any totex savings against their regulatory approved business plans. Fast money represents the amount of totex that the Guarantor is able to recover in the year to which the totex relates. Slow money is added to its regulatory asset value ("**RAV**"). In addition to fast money, in each year the Guarantor is allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance.

This works in a similar way to the previous price control. However, there have been changes to the asset lives for electricity transmission (transition from a range of asset lives to 45 years evenly across the RIIO period) and the depreciation calculation for U.K. Gas Distribution (changed from 45 years straight line to 45 years sum of digits for assets added post 2002). The Guarantor is also allowed to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease the Guarantor's allowed revenue and result from its performance against various measures related to its outputs. RIIO has introduced new incentive mechanisms as a way to provide further incentives to align the Guarantor's objectives with those of its customers and other stakeholders. For example, performance against its customer satisfaction targets can have a positive or negative effect of up to 1 per cent. of allowed annual revenues. Incentives will normally affect the Guarantor's revenues two years after the year of performance.

The RIIO controls for the Gas Distribution Business were introduced on 1 April 2013 and the first price control period lasts for eight years. During the eight-year period, Ofgem included a provision for a potential mid-period review, with scope driven by: changes to outputs that can be justified by clear changes in government policy; and the introduction of new outputs that are needed to meet the needs of consumers and other network users. In November 2015, Ofgem launched a consultation on a potential RIIO-T1 and GD1 mid-period review.

Under the RIIO controls, the Guarantor is required to deliver agreed outputs for its consumers and is funded to cover the costs of delivering these. The eight-year price control includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs. In May 2016, Ofgem decided to launch a mid-period review focusing on the transmission outputs only.

Return on Equity

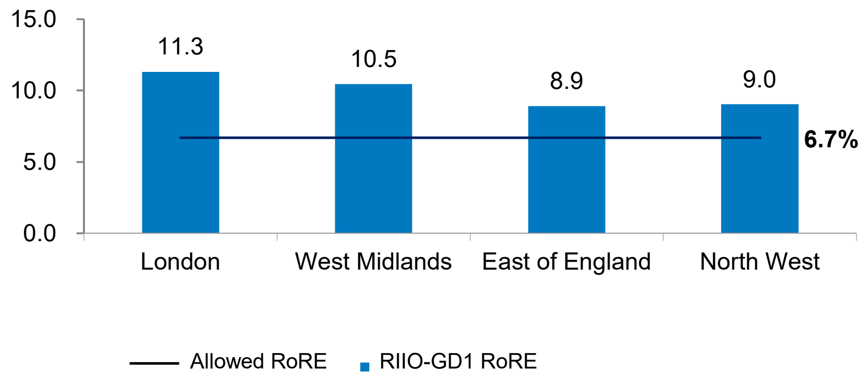
The Gas Distribution Business achieved a return on equity ("**RoE**") (using a long-run inflation rate of 3 per cent.) of 13 per cent. for the year ended 31 March 2016 compared with a RoE of 12.9 per cent. for the year ended 31 March 2015.

Return on Regulatory Equity

Return on Regulatory Equity ("**RoRE**") measures the return on Equity RAV i.e. the proportion of average annual RAV that is funded by shareholders. This measure helps Ofgem to understand how well regulated businesses are performing under the existing price control regime. Currently, Ofgem has permitted the Gas Distribution Business a RoRE of 6.7 per cent. for the period of eight years ending in 2021. Ofgem, however, expects the Gas Distribution Business to achieve a RoRE higher than the allowed RoRE due to savings made under totex incentive mechanism which were not spent in full by the Guarantor due to various factors.

2014–2021 Average Real Return on Regulatory Equity According to Ofgem

(%)



DESCRIPTION OF NATIONAL GRID GAS FINANCE PLC

NGGF was incorporated in England and Wales on 3 August 2006 as a public company limited by shares under the Companies Act 1985. NGGF's registered number is 5895068. The address of NGGF's registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is (+44) (0) 20 7004 3000.

NGGF's activities are solely those of a finance company.

NGGF is a wholly owned subsidiary of NGGD, which is wholly owned by NGHO. NGGF has no subsidiaries as at the date of this Prospectus.

NGGF commenced operations on 5 September 2016 upon establishment of the Programme (as further described in "*Description of the Guarantor – Overview of disposal*") and therefore, unlike NGG, it currently does not have any historical financial information.

As at the date of this Prospectus, the Directors of NGGF and their principal activities outside NGGF are as follows:

Name	Principal Occupation	Principal Activities outside NGGF
Andrew J. Agg	Director	Director of NGHO and certain other subsidiaries of National Grid plc.
Christopher Train	Director	Director of NGGD, Gas Distribution Property Holdings Limited, GO15. Reliable and Sustainable Power Grids.
Malcolm C. Cooper	Director	Director of NGGD, Gas Distribution Property Holdings Limited and certain other subsidiaries of National Grid plc.

The business address of each of the Directors of NGGF is 1-3 Strand, London WC2N 5EH.

There are no potential conflicts of interest between the duties to NGGF of each of the Directors listed above and their private interests or other duties.

On 8 September 2016, Fiona Peel (Beaney) and David Preston resigned and were replaced by Malcolm C. Cooper and Christopher Train.

TAXATION

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment, at the date hereof, in relation to payments of principal and interest in respect of the Instruments. It is based on current United Kingdom tax law as applied in England and Wales and the published practice of HM Revenue and Customs ("**HMRC**") (which may not be binding on HMRC), both of which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Instruments. The comments relate only to the position of persons who are absolute beneficial owners of the Instruments. Prospective Instrumentholders should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Final Terms may affect the tax treatment of that and other series of Instruments. The following is a general guide for information purposes which is not intended to be exhaustive and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Instrumentholders who are in any doubt as to their tax position should consult their professional advisers. Instrumentholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Instruments are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Instruments. In particular, Instrumentholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Instruments even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

(A) U.K. Withholding Tax on U.K. Source Interest

The Instruments issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Instruments will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and are admitted to trading on the Regulated Market of the London Stock Exchange or the Professional Securities Market of the London Stock Exchange. Whilst the Instruments are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Instruments may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemption described above, interest on the Instruments will generally fall to be paid by the Issuer under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to the availability of other reliefs under domestic law or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply. However, the obligation to withhold will not apply if the relevant interest is paid on Instruments with a maturity date of less than one year from the date of issue and which (i) are not issued under a scheme or arrangement the intention or effect of which is to render such Instruments part of a borrowing with a total term of a year or more and (ii) are not issued under a scheme or arrangement the intention of which is to render such Instruments part of a borrowing capable of remaining outstanding for a total term of a year or more.

(B) Other Rules Relating to United Kingdom Withholding Tax

Instruments may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Instruments should not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in (A) above.

Where Instruments are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. United Kingdom withholding tax requirements in relation to payments of interest are outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Instrumentholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references in this part to "interest" shall mean amounts that are treated as interest for the purposes of United Kingdom taxation. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Instruments or any related documentation. Instrumentholders should seek their own professional advice, as regards the withholding tax treatment of any payment on the Instruments which does not constitute “interest” or “principal” as those terms are understood in United Kingdom tax law.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an Issuer pursuant to Condition 12.3 of the Instruments or otherwise and does not consider the tax consequences of any such substitution.

(C) Payments in Respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Instruments (or other amounts due under the Instruments other than the repayment of amounts subscribed for the Instruments) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.).

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Instruments, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Instruments that have a fixed term and that are not treated as equity for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. federal register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Instruments (as described under “*Terms and Conditions of the*

Instruments —Further Issues") that are not distinguishable from grandfathered Instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Instruments, including grandfathered Instruments, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Instruments.

In the event any would be required pursuant to FATCA or an IGA, neither the Issuer nor any paying agent or any other person would be required to pay additional amounts as a result of the deduction or withholding.

PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 23 January 2017 (as amended or supplemented from time to time) between the Issuer, the Guarantor, 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

Neither the Instruments nor the Guarantee have been, and neither will be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and the Instruments 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.

Instruments in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the C Rules or D Rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed 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, (i) as part of its distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined and certified to the Issuer or the Issuing and Paying Agent by such Dealer, or in the case of Instruments issued on a syndicated basis, by each of such Dealers, 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 the Instruments, an offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive; or

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time if the denomination per Instrument being offered amounts to at least €100,000; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (a) to (d) above shall require 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.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Relevant Member State means 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, as the same may be varied in that Member State by any measure implementing the Prospectus Directive and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented, warranted and agreed 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 or the Guarantor; 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.

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, warranted and agreed 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, the Guarantor 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, the Guarantor 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 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 Prospectus, any other offering material or any Final Terms and none of the Issuer, the Guarantor or any other Dealer shall have responsibility for such material.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments which is admitted to trading 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 GAS FINANCE PLC

guaranteed upon issue by

NATIONAL GRID GAS DISTRIBUTION LIMITED

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments]
under the £6,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [●] [and the supplementary Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC, as amended (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, the Guarantor 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 [and the supplementary Prospectus[es]] [is] [are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and are available for viewing on the website of Regulatory News Services operated by the London Stock Exchange at *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 terms and 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 [●] and which are attached hereto. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [●] [and the supplementary Prospectus], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer, the Guarantor 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 supplementary Prospectuses dated [●]]. The Prospectus [and the supplementary Prospectus/] [is/are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and are available for viewing on the website of Regulatory News Services operated by the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.*

1	(i)	Issuer:	National Grid Gas Finance plc
	(ii)	Guarantor:	National Grid Gas Distribution Limited
2	[(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 [*insert description of the Series*] on [*insert date*/the Issue Date/exchange of the Temporary Global Instrument for interests in the Permanent Global Instrument, as referred to in paragraph 25 below [which is expected to occur on or about [*insert date*]]].]
3	Specified Currency or Currencies:	[●]
4	Aggregate Principal Amount:	[●]
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5	Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [●]]
6	Specified Denomination(s):	[●]
7	Calculation Amount:	[●]
8	[(i)] Issue Date:	[●]
	[(ii)] Interest Commencement Date:	[●]
9	Maturity Date:	[●][Interest Payment Date falling in or nearest to [●]]
10	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR][EURIBOR] +/– [●] per cent. Floating Rate] [Index Linked Interest] (See paragraph [15/16/17] below)
11	Redemption/Payment Basis:	[Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [●] per cent. of their principal amount] [Index Linked Redemption]
12	Change of Interest or Redemption/Payment Basis:	[[●]/[Not Applicable]]
13	Put/Call Options:	[Investor Put] [Issuer Call][(Make-whole)] (See paragraph [18/19/20/21/22] below)
14	Date [Board] approval for issuance of Instruments [and the Guarantee] obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	**Fixed Rate Instrument Provisions**	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear] as further adjusted (if applicable) from time to time in accordance with Condition 4.4

	(ii)	Interest Payment Date(s):	[●] in each year commencing on [●] and ending on [●]
	(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 4.3.5):	[30/360 / Actual/Actual [([ICMA]/ISDA)] / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis]
	(vi)	Determination Dates (Condition 4.3.5):	[●] in each year
16	**Floating Rate Instrument Provisions**		[Applicable/Not Applicable]
	(i)	Interest Period(s):	[●][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
	(ii)	Specified Interest Payment Dates:	[●][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
	(iii)	Interest Period Date:	[Not Applicable]/[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be 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 (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
	(v)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
	(vi)	Business Centre(s) (Condition 4.3.5):	[●]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(viii)	Interest Period Date(s):	[Not Applicable/[●]]
	(ix)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(x)	Screen Rate Determination	[Applicable/Not Applicable]

	(Condition 4.2.3(B)):	
	– Relevant Time:	[●]
	– Interest Determination Date(s):	[●] [[TARGET] Business Days in [●] for [●] prior to [●]] [Second London business day prior to the start of each Interest Accrual Period] [First day of each Interest Accrual Period] [Second day on which the TARGET 2 System is open prior to the start of each Interest Accrual Period]
	– Primary Source for Floating Rate:	[●]
	– Reference Banks (if Primary Source is "Reference Banks"):	[●]
	– Relevant Financial Centre:	[●]
	– Benchmark:	[LIBOR/ EURIBOR]
	– Representative Amount:	[●]
	– Effective Date:	[●]
	– Specified Duration:	[●]
	(xi) ISDA Determination (Condition 4.2.3(A)):	[Applicable/Not Applicable]
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(xii) Linear Interpolation (Condition 4.2.3(c)):	[Not Applicable / Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
	(xiii) Margin(s):	[[+/-][●] per cent. per annum as further adjusted (if applicable) from time to time in accordance with Condition 4.4] [Not Applicable]
	(xiv) Minimum Rate of Interest:	[●] per cent. per annum [Not Applicable]
	(xv) Maximum Rate of Interest:	[●] per cent. per annum [Not Applicable]
	(xvi) Day Count Fraction (Condition 4.3.5):	[30/360 / Actual/Actual ([ICMA]/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis / 30E/360(ISDA)]
17	**Index Linked Interest Instrument**	[Applicable/Not Applicable]
	(i) Index:	[RPI/CPI]

(ii)	Rate of Interest:	[●] per cent. [payable [annually/semi-annually/quarterly/monthly] in arrear] as further adjusted (if applicable) from time to time in accordance with Condition 4.4
(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Calculation Agent):	[[●] / Not Applicable]
(iv)	Specified Interest Payment Dates:	[●]
(v)	First Interest Payment Date:	[●]
(vi)	Interest Period(s):	[●]
(vii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(viii)	Minimum Indexation Factor:	[Not Applicable/[●]]
(ix)	Business Centre(s) (Condition 4.3.5):	[●]
(x)	Maximum Indexation Factor:	[Not Applicable/[●]]
(xi)	Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor:	[●] per cent. per annum
(xii)	Base Index Figure (Condition 5.1):	[●]
(xiii)	Day Count Fraction (Condition 4.3.5):	[30/360 / Actual/Actual ([ICMA]/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis / 30E/360(ISDA)]
(xiv)	“Index Figure” (Condition 5.1):	Sub-paragraph [(i)/(ii)/(iii)] of the definition of the relevant “Index” as set out in Condition 5.1 shall apply
(xv)	Reference Gilt:	[[●]/ Not Applicable]

PROVISIONS RELATING TO REDEMPTION

18	**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:	[●]
19	**Call Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Instrument:	[[●] per Calculation Amount]
	(iii) If redeemable in part:	
	(a) Minimum principal amount to be redeemed:	[●]
	(b) Maximum principal amount to be redeemed:	[●]
	(iv) Option Exercise Date(s):	[●]
	(v) Notice periods (Condition 6.5.2):	Minimum Period: [15][●] days Maximum Period: [30][●] days
20	**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 principal amount to be redeemed:	[●]
	(b) Maximum principal amount to be redeemed:	[●]
	(iii) Notice periods (Condition 6.5.3):	Minimum Period: [15][●] days Maximum Period: [30][●] days
21	**Redemption at the Option of the Instrumentholders on a Restructuring Event**	
	Optional Put Redemption Amount(s) of each Instrument:	[●] per Calculation Amount
22	**Optional Put Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Instrument:	[●] per Calculation Amount
	(iii) Option Exercise Date(s):	[●]
	(iv) Notice periods (Condition 6.7):	Minimum Period: [15][●] days Maximum Period: [30][●] days
	(v) Option Period:	[●]
23	**Final Redemption Amount of each Instrument**	[[●] per Calculation Amount]

	In cases where the Final Redemption Amount is Index-Linked:		
	(i)	Index:	[RPI/CPI]
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent):	[[●] / Not Applicable]
	(iii)	Determination Date(s):	[●]
	(iv)	Payment Date:	[●]
	(v)	Minimum Final Redemption Amount:	[●] per Calculation Amount
	(vi)	Maximum Final Redemption Amount:	[●] per Calculation Amount
	(vii)	Notice Periods (Condition 5.6):	Minimum Period: [30][●] days Maximum Period: [60][●] days
24	**Early Redemption Amount**		
	(i)	Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons (Condition 6.2) or on Event of Default (Condition 10):	[●] per Calculation Amount
	(ii)	Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6.2):	[Yes/No]
	(iii)	Notice Periods (Condition 6.2):	Minimum Period: [30][●] days Maximum Period: [45][●] days

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25	Form of Instruments	[Temporary Global Instrument exchangeable for a permanent Global Instrument which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument] [Temporary Global Instrument exchangeable for Definitive Instruments on 40 days' notice] [Permanent Global Instrument exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]
26	New Global Note:	[No/Yes]
27	Financial Centre(s) or other special provisions relating to Payment Dates (Condition 7.6):	[Not Applicable/[●]]
28	Talons for future Coupons to be	[Yes, as the Instruments have more than 27

attached to Definitive Instruments (and dates on which such Talons mature):	coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. The Issuer and the Guarantor confirm that such information has been accurately reproduced and that, so far as they are 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 the Issuer:

By: ....

Duly authorised

Signed on behalf of National Grid Gas Distribution Limited:

By: ....

Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND TRADING

(i)	Listing:	The Official List
(ii)	Admission to trading:	Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the London Stock Exchange'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 [not]been][are expected to be] rated[: [S & P: [●]] [Moody's: [●]] [Fitch: [●]]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[So far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.]

4 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)]	Reasons for the offer:	[●]
[(ii)]	Estimated net proceeds:	[●]
[(iii)]	Estimated total expenses:	[●]]

5 [Fixed Rate Instruments only – YIELD

Indication of yield:	Calculated as [●] on the Issue Date. The yield is calculated on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6 [Index Linked Instruments only – PERFORMANCE OF INDEX AND OTHER INFORMATION CONCERNING THE UNDERLYING

(i) Name of underlying index:	[U.K. Retail Prices Index (RPI) (all items) published by the Office for National Statistics] / [U.K. Consumer Prices Index (CPI) (all

	items) published by the Office for National Statistics]
(ii) Information about the Index, its volatility and past and future performance can be obtained from:	Information on [RPI/ CPI] can be found at [www.statistics.gov.uk / www.ons.gov.uk]

7 OPERATIONAL INFORMATION

ISIN:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. and the identification number(s):	[Not Applicable/[●]]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]
[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 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.]]
If syndicated, names of Managers:	[●]
If non-syndicated, name of Dealer:	[●]
Stabilisation Manager(s) if any:	[Not Applicable/[●]]

8 U.S. SELLING RESTRICTIONS

U.S Selling Restrictions:	[Reg. S Compliance Category 2; TEFRA C / TEFRA D / TEFRA not applicable]

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of PSM Instruments issued under the Programme which is listed on the official list of the U.K. Listing Authority and admitted to trading on the London Stock Exchange's professional securities market will be 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 FOR THE ISSUE OF THE INSTRUMENTS DESCRIBED BELOW.

Pricing Supplement dated [●]

NATIONAL GRID GAS FINANCE PLC
guaranteed upon issue by

NATIONAL GRID GAS DISTRIBUTION LIMITED

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments] under the
£6,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

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 [●] which [together with the supplementary listing particulars dated [●]] constitutes 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, the Guarantor 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 supplementary listing particulars] [is] [are] available for viewing at and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and [has/have] been published on the website of Regulatory News Services operated by the London Stock Exchange at *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 Listing Particulars with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") contained in the Trust Deed dated [*issue date of original Instruments*] a copy of which is set forth in the Listing Particulars dated [*original date*] and incorporated by reference into the Listing Particulars dated [*date of current prospectus*] and which are attached hereto. 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 and must be read in conjunction with the Listing Particulars dated [*date of current prospectus*] [and the supplementary listing particulars dated [●]], which [together] constitute[s] listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules. Full information on the Issuer, the Guarantor and the offer of the Instruments is only available on the basis of the combination of the Listing Particulars dated [*current date*] [and the supplementary listing particulars dated [●] and [●]] and this Pricing Supplement. [The Listing Particulars [and the supplementary listing particulars] [is/are] available for viewing at and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and [has/have] been published on the website of Regulatory News Services operated by the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.*

	(i) Issuer:	National Grid Gas Finance plc
	(ii) Guarantor:	National Grid Gas Distribution Limited
2.	[(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 [*insert description of the Series*] on [*insert date/*the Issue Date/exchange of the Temporary Global Instrument for interests in the Permanent Global Instrument, as referred to in paragraph 25 below [which is expected to occur on or about *[insert date]*]].]
3.	Specified Currency or Currencies:	[●]
4.	Aggregate Principal Amount:	[●]
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5.	Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [●]]
6.	Specified Denomination(s):	[●]
7.	Calculation Amount:	[●]
8.	[(i)] Issue Date:	[●]
	[(ii)] Interest Commencement Date:	[●]
9.	Maturity Date:	[●] [Interest Payment Date falling on or nearest to [●]]
10.	Interest Basis:	[[●] per cent. Fixed Rate]

	[[LIBOR][EURIBOR] +/– [●] per cent. Floating Rate] [Index Linked Interest] See paragraph [15/16/17] below
11. Redemption/Payment Basis:	[Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [●] per cent. of their principal amount] [Index Linked Redemption]
12. Change of Interest or Redemption/Payment Basis:	[[●] / Not Applicable]
13. Put/Call Options:	[Investor Put] [Issuer Call] [(Make-whole)] See paragraph [18/19/20/21/22] below
14. Date [Board] approval for issuance of Instruments [and Guarantee] obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Instrument Provisions**	[Applicable/Not Applicable]
(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear] as further adjusted (if applicable) from time to time in accordance with Condition 4.4
(ii) Interest Payment Date(s):	[●] in each year commencing on [●] and ending on [●]
(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 4.3.5):	[30/360 / Actual/Actual [([ICMA]/ISDA)] / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis]
(vi) Determination Dates (Condition 4.3.5):	[●] in each year
16. **Floating Rate Instrument Provisions**	[Applicable/Not Applicable]
(i) Interest Period(s):	[●][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(ii) Specified Interest Payment Dates:	[●][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]

(iii) Interest Period Date:	[Not Applicable]/[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be 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 (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(v) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
(vi) Business Centre(s) (Condition 4.3.5):	[●]
(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(ix) Screen Rate Determination (Condition 4.2.3(B)):	[Applicable/Not Applicable]
– Relevant Time:	[●]
– Interest Determination Date(s):	[●] [[TARGET] Business Days in [●] for [●] prior to [●]] [Second London business day prior to the start of each Interest Accrual Period] [First day of each Interest Accrual Period] [Second day on which the TARGET 2 System is open prior to the start of each Interest Accrual Period]
– Primary Source for Floating Rate:	[●]
- Reference Banks (if Primary Source is “Reference Banks”):	[●]
- Relevant Financial Centre:	[●]
- Benchmark:	[LIBOR/ EURIBOR]

	- Representative Amount:	[●]
	- Effective Date:	[●]
	- Specified Duration:	[●]
(x)	ISDA Determination (Condition 4.2.3(A)):	[Applicable/Not Applicable]
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(xi)	Linear Interpolation (Condition 4.2.3(C)):	[Not Applicable/ Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[[+/-][●] per cent. per annum as further adjusted (if applicable) from time to time in accordance with Condition 4.4] [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 4.3.5):	[30/360 / Actual/Actual ([ICMA]/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis / 30E/360(ISDA)]

17.	**Index Linked Interest Instrument**	[Applicable/Not Applicable]
(i)	Index:	[RPI/CPI]
(ii)	Rate of Interest:	[●] per cent. [payable [annually/semi-annually/quarterly/monthly] in arrear] as further adjusted (if applicable) from time to time in accordance with Condition 4.4
(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Calculation Agent):	[[●] / Not Applicable]
(iv)	Interest Payment Dates:	[●]
(v)	First Interest Payment Date:	[●]
(vi)	Interest Period(s):	[●]

(vii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(viii)	Minimum Indexation Factor:	[Not Applicable/[●]]
(ix)	Business Centre(s) (Condition 4.3.5):	[●]
(x)	Maximum Indexation Factor:	[Not Applicable/[●]]
(xi)	Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor:	[●] per cent. per annum
(xii)	Base Index Figure (Condition 5.1):	[●]
(xiii)	Day Count Fraction (Condition 4.3.5):	[30/360 / Actual/Actual ([ICMA]/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360 / 360/360 / Bond Basis / 30E/360(ISDA) / Eurobond Basis / 30E/360(ISDA)]
(xiv)	"Index Figure" (Condition 5.1):	Sub-paragraph [(i)/(ii)/(iii)] of the definition of the relevant "Index" as set out in Condition 5.1 shall apply
(xv)	Reference Gilt:	[●]

PROVISIONS RELATING TO REDEMPTION

18.	**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:	[●]
19.	**Call Option**	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[●]

(ii) Optional Redemption Amount(s) of each Instrument:	[[●] per Calculation Amount]
(iii) If redeemable in part:	
(a) Minimum principal amount to be redeemed:	[●]
(b) Maximum principal amount to be redeemed:	[●]
(iv) Option Exercise Date(s):	[●]
(v) Notice periods (Condition 6.5.2):	Minimum Period: [15] [●] days Maximum Period: [30] [●] days
20. **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:	[●]
(iii) If redeemable in part:	
(a) Minimum principal amount to be redeemed:	[●]
(b) Maximum principal amount to be redeemed:	[●]
(iv) Notice periods (Condition 6.5.3):	Minimum Period: [15][●] days Maximum Period: [30][●] days

21. **Redemption at the Option of the Instrumentholders on a Restructuring Event**

(i) Optional Put Redemption Amount(s) of each Instrument:	[●] per Calculation Amount
22. **Optional Put Option**	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[●]

(ii) Optional Redemption Amount(s) of each Instrument:	[●] per Calculation Amount
(iii) Option Exercise Date(s):	[●]
(iv) Notice periods (Condition 6.7):	Minimum Period: [15] [●] days Maximum Period: [30] [●] days
(v) Option Period:	[●]
23. **Final Redemption Amount of each Instrument:** In cases where the Final Redemption Amount is Index-Linked:	[[●] per Calculation Amount]
(i) Index:	[RPI/CPI]
(ii) Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent):	[[●] / Not Applicable]
(iv) Determination Date(s):	[●]
(vi) Payment Date:	[●]
(vii) Minimum Final Redemption Amount:	[●] per Calculation Amount
(viii) Maximum Final Redemption Amount:	[●] per Calculation Amount
(ix) Notice Periods (Condition 5.6):	Minimum Period: [30] [●] days Maximum Period: [60] [●] days
24. **Early Redemption Amount**	
(i) Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons (Condition 6.2) or on Event of Default (Condition 10):	[●] per Calculation Amount
(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6.2)	[Yes/No]

(iii) Notice Periods (Condition 6.2):	Minimum Period: [30] [●] days Maximum Period: [45] [●] days

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25. Form of Instruments	[Temporary Global Instrument exchangeable for a permanent Global Instrument which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument] [Temporary Global Instrument exchangeable for Definitive Instruments on 40 days' notice] [Permanent Global Instrument exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]
26. New Global Note	[No/Yes]
27. Financial Centre(s) or other special provisions relating to Payment Dates (Condition 7.6):	[Not Applicable/[●]]
28. Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature):	[Yes, as the Instruments have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. The Issuer and the Guarantor confirm that such information has been accurately reproduced and that, so far as they are 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 the Issuer:

By: ....
Duly authorised

Signed on behalf of National Grid Gas Distribution Limited:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND TRADING

(i) Listing:	The Official List
(ii) Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [the London Stock Exchange's professional securities market with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the London Stock Exchange'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 [not]been / are expected to be] rated[: [S & P: [●]] [Moody's: [●]] [Fitch: [●]]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[So far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)] Reasons for the offer	[●]
[(ii)] Estimated net proceeds:	[●]
[(iii) Estimated total expenses:	[●]]

5. [*Fixed Rate Instruments only* – YIELD

Indication of yield:	Calculated as [●] on the Issue Date The yield is calculated on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [*Index Linked Instruments only* – PERFORMANCE OF INDEX AND OTHER INFORMATION CONCERNING THE UNDERLYING

(i) Name of underlying index:	[U.K. Retail Prices Index (RPI) (all items) published by the Office for National Statistics] / U.K. Consumer Prices Index (CPI) (all

	items) published by the Office of National Statistics
(ii) Information about the Index, its volatility and past and future performance can be obtained from:	Information on [RPI/ CPI] can be found at [www.statistics.gov.uk / www.ons.gov.uk]

7. OPERATIONAL INFORMATION

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

8. DISTRIBUTION

(i) U.S. Selling Restrictions:	Reg. S Compliance Category 2; [TEFRA C / TEFRA D / TEFRA not applicable]
(ii) Method of distribution:	[Syndicated/Non-syndicated]

(iii) If syndicated, names of Managers:	[Not Applicable/give names]
(iv) Stabilisation Manager(s) (if any):	[Not Applicable/give names]
(v) If non-syndicated, name of Dealer:	[Not Applicable/give name]
(vi) Additional selling restrictions:	[Not Applicable/give details]

GENERAL INFORMATION

(1) The admission of the Programme to listing on the Official List and to trading on the Market and the PSM is expected to take effect on or about 26 January 2017. The listing of the Instruments on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List 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) Each of NGGF and NGGD has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Instruments and the Guarantee.

(3) The establishment and update of the Programme was authorised by a resolution of the Board of Directors of NGGF passed on 6 July 2016.

(4) The giving of the Guarantee was authorised by a resolution of the Board of Directors of NGGD passed on 5 July 2016.

(5) 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 relevant 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. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

(6) There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NGGD is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past a significant effect on the financial position or profitability of the Guarantor, the Issuer or any of the Guarantor's other subsidiaries (together, the "**Group**").

(7) There has been no significant change in the financial or trading position of the Issuer, the Guarantor or the Group since 30 September 2016.

(8) There has been no material adverse change in the prospects of the Issuer, the Guarantor or the Group since 30 September 2016.

(9) PricewaterhouseCoopers LLP (chartered accountants and registered auditors authorised and regulated by the Financial Conduct Authority) has given and has not withdrawn its written consent to the inclusion of its report on the audited combined historical financial information of the Gas Distribution Business for the year ended 31 March 2016 and the six months ended 30 September 2016 in the Appendix in the form and context in which it appears, and has authorised the contents of its reports for the purposes of Rule 5.5.4R(2)(f) of the Prospectus Rules.

(10) Each Instrument, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

(11) For a period of 12 months following the date of this Prospectus, copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public

holidays excepted), for inspection at the offices of The Bank of New York Mellon, London Branch, One Canada Square, London E14 5AL:

(i) a copy of this Prospectus with any supplement to this Prospectus or further Prospectus;

(ii) the Memorandum and Articles of Association of the Issuer and the Guarantor;

(iii) the audited combined historical financial information of the Gas Distribution Business for the year ended 31 March 2016 and the six months ended 30 September 2016, together with the accountant's report thereon;

(iv) the Trust Deed which incorporates the Guarantee; and

(v) the Agency Agreement.

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 *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

(12) The Issuer does not intend to provide any post-issuance information.

(13) Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, NGGD or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their respective 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, NGGD and/or their respective affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer and/or NGGD routinely hedge their credit exposure to the Issuer and/or NGGD, as applicable, 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 the relevant entity's securities, including potentially the Instruments. Any such short positions could adversely affect future trading prices of the Instruments. The Dealers and their respective 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.

APPENDIX

Schedule A

Accountant's Report

The Directors
National Grid Gas Finance plc
1 - 3 Strand
London
WC2N 5EH

23 January 2017

Dear Sirs

National Grid Gas Distribution Business (the "Gas Distribution Business")

We report on the financial information set out in Schedule B of this Appendix below (the "**Combined Historical Financial Information**"). The Combined Historical Financial Information has been prepared for inclusion in the prospectus dated 23 January 2017 (the "**Prospectus**") of **National Grid Gas Finance plc** (the "**Company**") on the basis of the accounting policies set out in notes 1 and 2 to the Combined Historical Financial Information. This report is required by item 11.1 of Annex IX to the PD Regulation and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Combined Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the Combined Historical Financial Information gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.4R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Gas Distribution Business's circumstances, consistently applied and adequately disclosed.

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We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Combined Historical Financial Information gives, for the purposes of the Prospectus dated 23 January 2017, a true and fair view of the state of affairs of the Gas Distribution Business as at the dates stated and of its profits, cash flows and changes in invested capital / recognised income and expense for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex IX to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Schedule B

Audited Combined Historical Financial Information of National Grid Gas's Gas Distribution Business for the year ended 31 March 2016 and the six months ended 30 September 2016

Combined Income Statement

	Note	Six months ended 30 September 2016	Six months ended 30 September 2016	Year ended 31 March 2016	Year ended 31 March 2016
		£m	£m	£m	£m
Revenue	3		913		1,905
Operating costs	4		(532)		(1,048)
Operating profit			**381**		**857**
Share of profit from associate	11		2		2
Finance income	7		-		1
Finance costs	7				
Before exceptional items		(76)		(148)	
Exceptional items and remeasurements	6	(10)		(6)	
Total finance cost			(86)		(154)
Profit before taxation					
Before exceptional items and remeasurements		307		712	
Exceptional items and remeasurements		(10)		(6)	
Total profit before tax			**297**		**706**
Tax					
Before exceptional items	8	(62)		(145)	
Exceptional items and remeasurements	6	62		126	
Total tax			-		(19)
Profit after tax					
Before exceptional items		245		567	
Exceptional items and remeasurements	6	52		120	
Profit for the period			**297**		**687**

Combined Statement of Comprehensive Income

	Note	Six months ended 30 September 2016	Year ended 31 March 2016
		£m	£m
Profit for the period		**297**	**687**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Net losses in respect of cash flow hedges		(28)	(10)
Transferred to profit or loss on cash flow hedges		3	7
Tax on items that may be reclassified subsequently to profit or loss	19	5	(1)
Total items that may be reclassified subsequently to profit or loss:		**(20)**	**(4)**
Other comprehensive loss for the period, net of tax		**(20)**	**(4)**
Total comprehensive income for the period		**277**	**683**

All amounts relate to continuing operations.

The amounts presented above represent the entire movement in comprehensive income for the period.

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net loss for the six months ended 30 September 2016 is £28m (year ended 31 March 2016: £10m).

Combined Balance Sheet

	Note	30 September 2016	31 March 2016
		£m	£m
Non-current assets			
Intangible assets	10	94	117
Property, plant and equipment	9	8,377	8,244
Investment in associates	11	5	3
Derivative financial assets	22	-	624
Other non-current assets	12	34	35
Total non-current assets		**8,510**	**9,023**
Current assets			
Inventories	13	6	7
Trade and other receivables	14	211	222
Financial and other investments	15	-	84
Derivative financial assets	22	-	41
Cash and Cash Equivalents		3	-
Total current assets		**220**	**354**
Total assets		**8,730**	**9,377**
Current liabilities			
Borrowings	16	(4)	(1,133)
Derivative financial liabilities	22	-	(24)
Trade and other payables	17	(274)	(383)
Provisions	20	(22)	(26)
Total current liabilities		**(300)**	**(1,566)**
Non-current liabilities			
Borrowings	16	(4,045)	(4,466)
Derivative financial liabilities	22	(4)	(324)
Deferred tax liabilities	19	(1,062)	(1,134)
Provisions	20	(80)	(86)
Other non-current liabilities	18	(842)	(839)
Total non-current liabilities		**(6,033)**	**(6,849)**
Total liabilities		**(6,333)**	**(8,415)**
Net assets		**2,397**	**962**
Invested capital			
Invested capital attributable to the owners of the Gas Distribution Business		2,404	1,000
Cash flow hedge reserve		(7)	(38)
Invested capital		**2,397**	**962**

Combined Statement of Cash Flows

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Cash flows from operating activities		
Total operating profit	381	857
Adjustments for:		
Depreciation, amortisation and impairment	154	294
Share based payment charge	3	3
Changes in working capital	(63)	20
Changes in provisions	(11)	(44)
Net cash inflow from operating activities	**464**	**1,130**
Cash flows from investing activities		
Disposal/(purchase) of intangible assets	3	(25)
Purchase of property, plant and equipment	(295)	(548)
Dividend received	-	2
Interest received	-	1
Net (additions)/disposals of short-term financial investments	(71)	152
Net cash flow used in investing activities	**(363)**	**(418)**
Cash flows from financing activities		
Proceeds from new debt raised	3,606	-
Net settlement of borrowings	158	(247)
Interest paid	(48)	(104)
Transactions with owners of Gas Distribution Business	(3,814)	(361)
Net cash flow used in financing activities	**(98)**	**(712)**
Net increase in cash and cash equivalents	3	-
Net cash and cash equivalents at the start of the period	-	-
Cash and cash equivalents at the end of the period	**3**	**-**

The reversal of the £5,137m net debt allocation has been treated as a non-cash item in the cash flow statement as this does not represent the settlement of the borrowing. The new bonds specific to the Gas Distribution Business of £3,606m have been included in proceeds from new debt raised and the novation of existing index linked bank loans of £434m have been treated as a non-cash item as there is no cash movement resulting from the novation.

Combined Statement of Changes in Invested capital

	Invested Capital Reserve	Cash flow hedge reserve	Total Invested Capital
	£m	£m	£m
Balance at 1 April 2015	**588**	**(34)**	**554**
Profit for the year ended 31 March 2016	687	-	687
Total other comprehensive loss for the year ended 31 March 2016	-	(4)	(4)
Corporation tax met by owners of the Gas Distribution Business during the year ended 31 March 2016	82	-	82
Share based payments for the year ended 31 March 2016	3	-	3
Tax on share based payments for the year ended 31 March 2016	1	-	1
Transactions with the owners of the Gas Distribution Business during the year ended 31 March 2016	(361)	-	(361)
Balance at 31 March 2016	**1,000**	**(38)**	**962**
Profit for the six months ended 30 September 2016	297	-	297
Total other comprehensive loss for the six months ended 30 September 2016	-	(20)	(20)
Corporation tax met by owners of the Gas Distribution Business during the six months ended 30 September 2016	75	-	75
Share based payments of the six months ended 30 September 2016	3	-	3
Derecognition of cash flow hedge reserve	(63)	63	-
Derecognition of deferred tax on cash flow hedge reserve	4	(12)	(8)
Derecognition of debt and derivative items	1,253	-	1,253
Derecognition of financial investments	(155)	-	(155)
Transactions with the owners of the Gas Distribution Business during the six months ended 30 September 2016	(10)	-	(10)
Balance at 30 September 2016	**2,404**	**(7)**	**2,397**

The reversal of the net debt allocation and inclusion of net debt specific to the Gas Distribution Business has been transacted through invested capital. As a result of the reversal of the debt allocation, the balance on the Cash flow hedge reserve at 21 September 2016 has been released through changes in invested capital.

Notes to combined historical financial information

1. Background and basis of preparation

Background and purpose of the combined historical financial information

National Grid Gas plc ("NGG") is the National Transmission Operator for gas in Great Britain and a subsidiary of National Grid plc ("NG"). It is the sole owner and operator of high pressure gas transmission infrastructure in Great Britain. NGG also owns four of the eight UK gas distribution networks that deliver low pressured gas to final consumers and businesses ("Gas Distribution" or the "Gas Distribution Business"). NGG has other business operations in the UK being Gas Transmission and other activities, including Metering.

NGG also owns an interest in Xoserve Limited ("Xoserve"), a company which provides transactional billing and other services on behalf of NGG and the other gas network operators who are responsible for transporting gas through the eight gas distribution networks and the National Transmission System.

The activities of Gas Distribution in relation to the distribution of gas through the four networks is a regulated business.

In November 2015 NG announced its intention to dispose of its Gas Distribution Business. Gas Distribution comprises primarily of the gas distribution networks in the East of England, North London, North West, and West Midlands.

Basis of preparation

The Gas Distribution Business of NG was not a standalone legal entity or group of entities for the six months ended 30 September 2016 or the year ended 31 March 2016. The accompanying combined financial information, which was prepared specifically for the purpose of this document, reflects the assets, liabilities, revenues and expenses allocated or directly attributable to the Gas Distribution Business.

The combined financial information has been prepared on a "combined" basis from NG's financial statements. The financial information has been prepared on a basis that combines the results, assets and liabilities attributable to Gas Distribution by applying the principles underlying the consolidation procedures of IFRS 10 'Consolidated Financial Statements' ("IFRS 10") as at and for the six months ended 30 September 2016 and the year ended 31 March 2016. They include allocations and attributions of expenses, assets and liabilities from NGG and other entities within the National Grid plc group where they relate to the Gas Distribution Business.

The combined financial information may not be indicative of Gas Distribution's future performance and does not necessarily reflect what its combined results of operations, financial position and cash flows would have been had Gas Distribution operated as a separate independent company during the periods presented. In addition to industry and market conditions, Gas Distribution's future profitability and cash flows depend on meeting the conditions of the licence to distribute gas from Ofgem ("The Office of Gas and Electricity Markets").

Gas Distribution has not been managed as a single economic entity separately from the excluded operations, and Gas Distribution is therefore defined by reference to the business considered to be disposed of by the ultimate Parent.

The combined financial information does not constitute a set of 'consolidated' financial statements within the context of IFRS as the Gas Distribution Business does not represent a group for accounting purposes. The investment in Xoserve has been included in the combined financial information using equity accounting as defined in IAS 28 Investment in Associates and Joint Ventures. This reflects the fact that Gas Distribution has significant influence over the Xoserve business. Xoserve is consolidated into NG as NGG has control of Xoserve through its aggregate shareholdings related to both the Gas Distribution and Gas Transmission Business.

The financial information included in this combined financial information reflects the Gas Distribution business, and assets and liabilities expected to be transferred as part of the proposed sale transaction. Due to changes in the expected assets and liabilities to be sold, the financial information for the year ended 31 March 2016 has changed from that included in the combined financial information prepared for the Prospectus of National Grid Gas Finance plc ("NGGF") issued on 5 September 2016. The financial impact on the affected balances is summarised as follows:

	Asset / (liability) as issued on 13 January 2017	Asset / (liability) as issued on 5 September 2016	Net increase / decrease in net assets
	£m	£m	£m
Property, plant and equipment	8,244	8,250	(6)
Intangible assets	117	128	(11)
Deferred tax liabilities	(1,134)	(1,128)	(6)
Provisions	(112)	(130)	18
Total	**7,115**	**7,120**	**(5)**

The combined financial information eliminates any balances and transactions between activities included within the Gas Distribution Business.

The combined financial information is presented in millions of Pounds Sterling ("£m") unless otherwise stated. The combined financial information has been prepared under the historical cost convention except the revaluation of derivative financial instruments.

This combined historical financial information has been prepared for inclusion in the Prospectus of NGGF using the latest available financial information, being the six months ended 30 September 2016 and the year ended 31 March 2016.

Applicable accounting framework

The historical combined financial information has been prepared in accordance with the applicable requirements of the Prospectus Directive Regulation, this basis of preparation and following the recognition and measurement principles of International Financial Reporting Standards and related interpretations as adopted by the European Union (hereafter 'IFRS').

No differences have been identified between IFRS as issued by the IASB and as adopted by the European Union that would have an impact on this combined financial information. The accounting policies are consistent with those adopted by NGG for the year ended 31 March 2016 and the six months ended 30 September 2016.

IFRS does not provide guidance for the preparation of combined financial information and accordingly in preparing the combined financial information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for

Investment Reporting applicable to public reporting engagements on historical financial statements" issued by the U.K. Auditing Practices Board have been applied.

The combined historical financial information is in full compliance with all IFRS presentation and disclosure requirements. The combined financial information is prepared using the accounting policies that will be applicable for the year ending 31 March 2017. All accounting policies have been applied consistently.

Going concern

The combined financial information has been prepared on a historical cost and going concern basis. The planned separation of the Gas Distribution Business has been considered and it is expected that sufficient funding will be available for future operations after the separation occurs.

The Gas Distribution Business' forecasts and projections, taking account of possible changes in trading performance show that the Gas Distribution Business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Methodology for preparation of the combined historical financial information

The combined financial information was prepared using the Gas Distribution Business' historical records of its assets and liabilities, and includes all sales, costs, assets and liabilities directly attributable to the Gas Distribution Business. Costs directly associated with the Gas Distribution Business, for example, the costs associated with employment costs, network costs, and other direct overheads, are separately identifiable and have been included directly within the combined financial information.

In addition, there are a number of other indirect central costs which have been allocated into the combined financial information to reflect that the Gas Distribution Business operated as part of the wider NGG entity. These costs primarily relate to corporate overheads, legal and information system costs. These expenses have been allocated to the Gas Distribution Business on the basis of direct usage when identifiable, with the remainder allocated on the basis described in detail in note 24 to the combined financial information.

The detailed approaches for the Combined Income Statement are described below. The operating costs reflected in the Combined Income Statement are the total of cost of sales, administration expenses and depreciation and amortisation.

Income and expense balances	Methodology for preparation
Revenue	Direct revenues of the Gas Distribution Business.
Cost of sales	Direct costs of the Gas Distribution Business.
Administration expenses (direct)	Direct costs of the Gas Distribution Business.

Income and expense balances	**Methodology for preparation**
Administration expenses (indirect allocated shared costs)	The allocated costs consist of allocations from NGG and other entities in the National Grid plc group based on the actual costs incurred and appropriate allocation drivers. The nature of the allocated costs and the drivers used to allocate those costs are described in detail in note 24 to the combined financial information. All such costs and expenses have been deemed to have been settled by the Gas Distribution Business to NGG in the period in which the costs were incurred. Invested Capital in the Gas Distribution Business as shown in the Combined Balance Sheet includes amounts due to / from NGG as well as intercompany receivables / payables with NGG.
Depreciation and amortisation	Actual depreciation and amortisation charges for the tangible and intangible assets included within the Gas Distribution Business and the combined financial information.
Finance costs	In the period to 21 September 2016 and the year to 31 March 2016 no debt specific to the Gas Distribution Business was in place. During these periods the combined financial information reflects a net debt position for Gas Distribution by apportioning NGG's actual net debt based on the gearing levels for NGG's regulated activities. £3,000m and €750m of bonds were issued by NGGF and the funds were drawn down on 22 September 2016. NGGF is part of the sale perimeter of the Gas Distribution Business therefore the Directors consider these debts to be specific to the Gas Distribution Business and they are included in the combined financial information from 22 September 2016 accordingly. In addition to the above, Indexed linked bank debt of £434m was novated to Gas Distribution with effect from 1 October 2016. As the novation agreement was signed on 30 September 2016 these debts are also included in the combined financial information. More detail of these two loans have been provided in Note 16. Finance costs are included in line with the basis of inclusion of the debt balance, as follows: • For the period to 21 September 2016: allocated based on the ratio used for the allocation of borrowing and derivative financial instruments. For this period this results in 61.5% of NGG finance costs being allocated to Gas Distribution, consistent with the proportion of net debt. • For the period from 22 September 2016: specific costs attributable to the Gas Distribution debt balances.
Exceptional items	The exceptional items included in the combined financial information are those exceptional items of NGG, based financial statements of NGG, that relate to Gas Distribution.

Income and expense balances	Methodology for preparation
Corporation taxes	Calculated on a separate returns basis as if Gas Distribution prepared separate tax computations. This is further explained within note 2 and 8. Historically, the Gas Distribution Business was included in tax filings with other group entities. It does not maintain taxes payable to / from NGG, and it is deemed to settle the annual current tax balances immediately with the legal taxpaying entities. These settlements are reflected as changes in Invested Capital.

For the Combined Balance Sheet, the assets and liabilities included are those that historically have been used, or were historically directly attributable to the Gas Distribution Business, and which are included within the business expected to be sold. Where assets have historically been used by both Gas Distribution and other parts of the National Grid plc group, they are included within the Combined Balance Sheet if they are expected to form part of the business to be sold, or were historically directly attributable to the Gas Distribution Business and will be sold as a part of the business.

The detailed approaches used for items included in the Combined Balance Sheet are explained below:

Asset and liability balances	Methodology for preparation
Property, plant and equipment	Assets that have been used in the Gas Distribution Business and are included within the Gas Distribution Business expected to be sold.
Intangible assets	Assets that have been used in the Gas Distribution Business and are included within the Gas Distribution Business expected to be sold.
Inventories	Direct inventory held by each network.
Cash and cash equivalents	NG uses a centralised cash pooling approach to cash management and to finance its global operations. Gas Distribution does not hold any other cash balances apart from any cash balances which are ring-fenced for the use of Gas Distribution. Ring-fenced cash is maintained in a separate bank account only available to Gas Distribution. All other cash deposits and funding is pooled directly with the National Grid central treasury function. As a result, cash and cash equivalents ring-fenced for the use of Gas Distribution have been allocated to Gas Distribution. All other cash maintained within National Grid are not included in the combined financial information.
Trade receivables and prepayments	Trade receivables and prepayments are a combination of direct balances from Gas Distribution specific balance sheets, and attributions consistent with allocation percentages used for the respective income statement items, where costs have been allocated from NGG or the wider National Grid plc group.

Asset and liability balances	Methodology for preparation
Trade payables and accruals	Trade payables and accruals are a combination of direct balances from Gas Distribution specific balance sheets, and attributions consistent with allocation percentages used for the respective income statement items, where costs have been allocated from NGG or the wider National Grid plc group.
Borrowings, financial investments and derivative financial instruments	Debt specific to the Gas Distribution Business, or where no such debt exists, an apportionment based on the level of target gearing for NGG's regulated businesses. In the periods to 21 September 2016 and the year to 31 March 2016 no debt specific to the Gas Distribution Business was in place. In this period NGG maintained a significant level of external and group borrowing that was used to finance its operations. For this period the combined financial information reflects a net debt position for Gas Distribution by apportioning NGG's actual net debt based on the target gearing levels for NGG's regulated activities. Bonds totalling £3,000m and €750m have been issued by NGGF, the funds were drawn down on 22 September 2016. NGGF is part of the sale perimeter of the Gas Distribution Business therefore the Directors consider these debts to be specific to the Gas Distribution Business and they are included in the combined financial information from 22 September 2016 accordingly. In addition to the above, Indexed linked bank debt of £434m was novated to the Gas Distribution business with effect from 1 October 2016. The Novation agreement was signed on 30 September 2016, therefore these debts have also been included in the Combined Balance Sheet at 30 September 2016. More detail of borrowings is presented in Note 16.
Deferred tax liabilities	Calculated on a separate returns basis as if Gas Distribution prepared separate tax computations. This is further explained within note 2 and 8.
Invested Capital	Invested Capital represents the investment provided by the National Grid plc group into the Gas Distribution Business. Invested Capital includes support provided in the form of equity contributions, tax balances on profits earned by Gas Distribution but paid by NGG, changes in the net assets on account of changes in the perimeter of transaction, VAT balances and balances with the National Grid plc group not specifically allocated as part of borrowings, and derivative financial instruments.

Asset and liability balances	Methodology for preparation
Cash flow hedge reserve	The combined financial information does not allocate separate equity balances other than the cash flow hedge reserve position. The only material derivative balances within the period relate to instruments used to manage debt positions. NGG maintain appropriate hedge documentation and uses hedge accounting for derivatives. The combined financial information is prepared consistently with the hedge accounting policy of NGG. At the balance sheet date only borrowings specific to Gas Distribution are included in the combined financial information, as such the cash flow hedge reserve specific to these borrowings is included in the combined financial information.

Below the basis of preparation is detailed for other items not included in the Combined Balance Sheet:

Value Added Tax ("VAT")

The combined financial information does not reflect any receivable or payable related to VAT. Gas Distribution is not a separately VAT registered business and transactions undertaken by Gas Distribution are within entities that are part of the NG VAT group. As a result VAT is not charged on transactions within the VAT group. Any VAT on transactions of Gas Distribution would therefore not be representative of the VAT position of any buyer of the Gas Distribution Business as the buyer would not be part of the NG VAT group. In the combined financial information VAT balances are reflected as part of Invested Capital.

Corporation tax

Corporation tax is determined on a separate return basis for recognition in the income statement. Following this approach the tax charge does not take into account any other factors that have historically influenced the overall tax charge of Gas Distribution.

Any corporation tax due on the profits made by Gas Distribution would be paid by NGG. In the combined balance sheet no corporation tax liability is reflected in the combined financial information and all tax assets/liabilities on profits/losses are reflected as part of Invested Capital Related party balances.

Related Parties

Related parties are NGG and individuals or entities:

i) under the control, joint control or significant influence of NGG;

ii) which control or exercise joint control or significant influence over NGG;

iii) which are under the common control, joint control or significant influence of NGG.

In addition key management personnel of the Gas Distribution Business are related parties for the combined financial information.

Information on related party transactions and balances are included in note 24. The related party disclosures include relevant information provided by NGG, and also additional information on balances and transactions of Gas Distribution with NGG.

Employee information

The majority of employees of Gas Distribution worked exclusively for the Gas Distribution Business. A number of employees worked across both Gas Distribution and non-Gas Distribution activities. Employee costs are included within the Gas Distribution Business where they have been included within Gas Distribution profit centre costs within the underlying accounting records. Gas Distribution Business profit centres include an appropriate Gas Distribution proportion of the employment costs of employees who work across both Gas Distribution and non-Gas Distribution activities.

To reflect a relevant employee number disclosure, the number of employees disclosed is based on the number of full time equivalents ("FTE").

The remuneration of key management personnel disclosure is based on an allocation of the amount recognised by NGG for each period.

2. Significant accounting policies

A summary of the significant accounting policies used in the preparation of the accompanying combined historical financial information is presented below.

Key accounting estimates and judgements

The preparation of financial information in accordance with IFRS requires the use of certain accounting estimates and requires management to exercise judgement in the process of applying accounting policies. The combined financial information, prepared in accordance with the basis of preparation and recognition and measurement principles of IFRS, also require the use of certain estimates and judgements. The judgements in the combined financial information are consistent with the judgements in the financial information of NGG, together with further estimates and judgements required specifically related to the combined historical financial information.

Areas of judgment that have the most significant effect on the amounts recognised in the financial statements of NGG and the combined financial information are as follows:

- the categorisation of certain items as exceptional items;
- IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:
  - Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of combined financial position to net assets and Invested Capital. In the combined income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements of derivative financial instruments. Exceptional items and remeasurements of derivative financial instruments are presented separately on the face of the income statement;
  - Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset; and
  - Financial instruments: the Gas Distribution business normally applies hedge accounting in most circumstances where this is permitted.

Further significant judgements inherent within the combined financial information, as indicated within the basis of preparation methodology, are in relation to the following balances.

- The amounts included within Invested Capital: Invested Capital represents the funding to Gas Distribution from the ultimate parent's group (other than that which is treated by the Gas Distribution management as genuine receivables and payables positions) and the combined financial information cumulative retained earnings position from 1 April 2015.
- Allocations of costs: The combined financial information includes the allocation of various expenses incurred by NGG, which requires the use of estimates. These costs were affected by the arrangements that existed in the NGG Group and are not necessarily representative of the position that will prevail in the future.

Changes in accounting standards

The combined financial information is prepared using the standards and interpretations that will be applicable for the year ending 31 March 2017.

The following IFRSs were available for early adoption but have not been applied by the Gas Distribution Business in this combined financial information.

Standard/Interpretation		Effective date	EU Endorsement status
IFRS 9	Financial Instruments	Annual periods beginning on or after 1 January 2018	Not yet endorsed
IFRS 15	Revenue from contracts with Customers	Annual periods beginning on or after 1 January 2018	Endorsed
IFRS 16	Leases	Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied	Not yet endorsed

The impact of the most significant changes in accounting standards on the Gas Distribution Business combined financial information is set out below:

1. The National Grid plc Group has completed an initial impact assessment of the new revenue standard by completing a survey of all businesses identifying the likely impact of IFRS 15. This was a tailored questionnaire based on the known impacts of the new standard on power and utility companies. Whilst no material differences were identified as part of the questionnaire process, further follow up work will be required to determine the impact, if any, on certain revenue items including, but not limited to, variable consideration contracts, take or pay arrangements and performance obligations where multiple goods or services are provided in individual contracts.
2. NGG enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial instruments' and IFRS 16 'Leases' effective for periods beginning after 1 January 2018 and 1 January 2019 respectively, subject to EU endorsement. NGG is assessing the likely impact of this standard on the NGG's financial statements.
3. Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the NGG's consolidated financial statements.

Foreign currency

The functional and reporting currency of the Gas Distribution Business is Pound Sterling ("£"). Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and revenues, costs and non-monetary assets at the exchange rate ruling at the date of the transactions.

Profit and losses arising from foreign currency translations and on settlement of amounts receivable and payable in foreign currency are dealt with through the profit and loss account.

Revenue recognition

Revenue represents the sales value derived from the distribution of gas and the provision of other support services including an assessment of the value of services provided, but not invoiced, at the period end.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the period, and the amount of gas transported for the period, evaluated at contractual prices on a monthly basis.

Where revenue for the period exceeds the maximum amount permitted by regulatory agreement, and adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery

Revenue for other services is recognised when the services are provided.

Exceptional items and remeasurements

The accounting policy for disclosure of exceptional items is consistent with that of National Grid plc. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Gas Distribution business' control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the period in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Taxes

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

Deferred taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences predominantly arise from property, plant and equipment, with other minor temporary differences from capitalised software and other intangible assets.

Deferred taxes have been calculated by applying the tax rates substantively enacted at the balance sheet date and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which a deductible temporary difference can be utilised.

Property, plant and equipment

(A) Recognition in the Combined Balance Sheet

Property, plant and equipment, including expenditure on major overhauls, are initially recorded in the Combined Balance Sheet at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset and any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment.

Property, plant and equipment includes assets in which Gas Distribution's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. All other capital contributions received prior to 1 July 2009 towards the cost of property, plant and equipment and contributions received post 1 July 2009 (the effective date of IFRIC 18 Transfers of Assets from Customers) towards the altering, diverting or relocating a tangible fixed asset are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

All other capital contributions received post 1 July 2009 towards the cost of tangible fixed assets from customers for connections to the gas transmission and distribution networks are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received post 1 July 2009 towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

(B) Depreciation

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods **Years**

Land and Buildings (excluding freehold land)	up to 50
Plant and Machinery:	
- mains, services and regulating equipment	30 to 100
Motor vehicles and office equipment	up to 7

(C) Impairment

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and material impairments may be disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets

(A) Recognition in the Combined Balance Sheet

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

(B) Amortisation

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The principal amortisation period for software is up to 8 years.

(C) Impairment

Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. No indefinite life intangible assets are recognised which would require an annual impairment review.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Financial instruments

(A) Financial assets

Financial assets include two main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category is loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loan receivables and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade, loan and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value.

(B) Financial liabilities

Trade and other payables

Trade and other payables includes amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book value.

Borrowings and financial income / expenses

Gas Distribution borrows money primarily in the form of bonds, borrowings from fellow subsidiaries and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to the retail price index ("RPI").

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

Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, equity or other indices. Derivatives are transacted to manage the exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically derivatives are used to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets.

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

The fair value of the financial derivatives are calculated by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed in note 23.

Hedges

Derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. The use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. NGG uses two hedge accounting methods, which are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Derivative instruments are not used for trading purposes. If some of the derivative instruments don't qualify as hedging instruments under IAS 39, they are accounted for as derivative instruments as described above.

Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the other instruments. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

Employee retirement plans

The substantial majority of Gas Distribution's employees are members of the National Grid UK Pension Scheme or The National Grid YouPlan. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme across the National Grid plc Group. Accordingly, the scheme is recognised as if it were a defined contribution scheme. The pension charge for the period represents contributions payable to the scheme for the period. A share of the assets and liabilities, or the actuarial gains and losses of the scheme are not recognised in the combined financial information.

Full details of the National Grid UK Pension Scheme and the National Grid YouPlan are publically available in the 2016 NG Annual Report and Accounts.

Provisions

Provisions are recognised when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the amount of cash required can only be estimated.

Operating segments

Management information provided to the Chief Operating Decision Maker, being the Board of Directors of NGG, is assessed based on the Gas Distribution Business as a whole and therefore only one reportable segment is identified.

3. Revenue

Revenue is earned through distribution of gas to third party customers located in the United Kingdom.

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Revenue from distribution of gas	896	1,878
Other revenue	17	27
	913	**1,905**

Analysis of revenue by major customer:

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Company A	279	595
Company B	110	239
	389	**834**

These revenues are attributable to gas distribution. No other single customer contributed 10% or more to the revenue.

4. Operating costs

The following items are included in operating costs.

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Depreciation and amortisation	154	294
Payroll costs	109	204
Purchase of gas	7	17
Rates	77	151
Other	185	382
	532	**1,048**

5. Payroll costs

Below we have presented a breakdown of payroll costs (including disclosure of number of employees).

a) Payroll costs include

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Wages and salaries	94	187
Social security costs	13	20
Pension costs	22	41
Share based payments	3	3
Severance costs (excluding pension costs)	1	3
	133	254
Less: payroll costs capitalised	(24)	(50)
	109	**204**

b) Number of employees, including Directors

	30 September 2016 Number	31 March 2016 Number	Monthly average six months ended 30 September 2016 Number	Monthly average year ended 31 March 2016 Number
United Kingdom	3,792	3,648	3,674	3,608

c) Key management compensation

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Short-term employee benefits	0.5	2.4
Post-employment benefits	0.3	0.4
Share based payments	-	0.9
	0.8	**3.7**

Key management comprises the Board of Directors of NGG together with those Executive Directors of NG who have managerial responsibility for any of the businesses of NGG.

6. Exceptional items and remeasurements of derivative financial instruments

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	**£m**
Included within finance costs:		
Remeasurements:		
Net losses on derivative financial instruments (i)	(10)	(6)
Total included within profit before tax	**(10)**	**(6)**

	Six months ended 30 September 2016	Year ended 31 March 2016
Included within taxation:	**£m**	**£m**
Exceptional credit arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in the ·UK tax rate	60	125
Tax on remeasurements	2	1
	62	126
Total exceptional and remeasurements after tax	**52**	**120**
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	60	125
Total remeasurement items after tax	(8)	(5)
	52	**120**

(i) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Items included within tax

The Finance No. 2 Bill 2015 resulted in a reduction in the UK corporation tax rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020. The Budget in March this year announced a further reduction in the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. This was substantively enacted on 6th September 2016. This led to a reduction in the deferred tax liability during the six months ended 30 September 2016 which has been classified as exceptional.

7. Finance income and costs

Recognised in combined income statement

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Finance income		
Interest income on financial instruments	-	(1)
Total finance income	**-**	**(1)**
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Interest payable on bank loans and overdrafts	9	15
Interest payable on other borrowings	88	170
Derivatives	(20)	(42)
Unwinding of discount on provision	1	4
Other interest	-	1
Less: interest capitalised	(2)	-
Total finance costs	**76**	**148**
Re-measurements		
Net (gains)/losses on derivative financial instruments included in remeasurements (i)		
Ineffectiveness on derivatives designated as:		
Fair value hedges (ii)	(4)	(12)
Cash flow hedges	1	4
Derivatives not designated as hedges or ineligible for hedge accounting	13	14
Exceptional items and remeasurements included within finance costs	**10**	**6**
Net finance costs	**86**	**153**

(i) Includes a net foreign exchange loss on financing activities of £105m (year ended 31 March 2016: £47m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(ii) Includes a net gain on instruments designated as fair value hedges of £23m (year ended 31 March 2016: £14m) offset by a net loss of £19m (year ended 31 March 2016: £1m) arising from the fair value adjustments to the carrying value of debt.

8. Taxation

Taxation recognised in the combined income statement comprises

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	**£m**
Tax before exceptional items and remeasurements	62	145
Exceptional tax on items not included in profit before tax (note 6)	(60)	(125)
Tax on other exceptional items and remeasurements (note 6)	(2)	(1)
Tax on total exceptional items and remeasurements (note 6)	(62)	(126)
Total tax charge	**-**	**19**

Taxation as a percentage of profit before tax		
	%	**%**
Before exceptional items and remeasurements	20.2%	20.4%
After exceptional items and remeasurements	0.0%	2.6%

The tax charge for the year can be analysed as follows:	**£m**	**£m**
Current tax		
UK corporation tax at 20%	75	85
Adjustments in respect of prior years	-	(2)
Total current tax	**75**	**83**
Deferred tax		
UK deferred tax	(75)	(65)
UK deferred tax adjustments in respect of prior years	-	1
Total deferred tax	**(75)**	**(64)**
Total tax charge	**-**	**19**

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	**£m**
Tax charged/(credited) to other comprehensive income and equity		
Current tax		
Share based payments	-	(1)
Deferred tax		
Cash flow hedges	(5)	1
	(5)	**-**
Total tax recognised in the statement of comprehensive income	(5)	1
Total tax relating to share based payment recognised directly in equity	-	(1)
	(5)	**-**

8. Taxation (continued)

Reconciliation of effective tax rate

	Before exceptional items and remeasure-ments for the six months ended 30 September 2016	After exceptional items and remeasure-ments for the six months ended 30 September 2016	Before exceptional items and remeasure-ments for the year ended 31 March 2016	After exceptional items and remeasure-ments for the year ended 31 March 2016
	£m	£m	£m	£m
Profit before tax				
Before exceptional items and remeasurements	307	307	712	712
Exceptional items and remeasurements	-	(10)	-	(6)
Profit before tax	**307**	**297**	**712**	**706**
Profit before tax multiplied by UK corporation tax rate of 20%	61	60	142	141
Effects of:				
Adjustments in respect of prior years	-	-	(1)	(1)
Expenses not deductible for tax purposes	1	1	6	6
Non taxable income	-	(1)	(1)	(1)
Deferred tax impact of change in UK tax rate	-	(60)	-	(125)
Other	-	-	(1)	(1)
Total tax	**62**	**-**	**145**	**19**
	%	%	%	%
Effective tax rate	**20.2%**	**0.0%**	**20.4%**	**2.7%**

9. Property, plant and equipment

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	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	£m
Cost					
Balance at 1 April 2015	111	11,065	23	332	11,531
Additions during the year ended 31 March 2016	6	490	10	22	528
Disposals during the year ended 31 March 2016	-	(8)	-	(1)	(9)
Reclassifications during the year ended 31 March 2016	-	13	(13)	-	-
Balance at 31 March 2016	**117**	**11,560**	**20**	**353**	**12,050**
Additions during the six months ended 30 September 2016	3	238	3	23	267
Reclassifications during the six months ended 30 September 2016	-	1	(1)	-	-
Balance at 30 September 2016	**120**	**11,799**	**22**	**376**	**12,317**
Accumulated depreciation and impairment					
Balance at 1 April 2015	(57)	(3,250)	-	(249)	(3,556)
Depreciation charge for the year ended 31 March 2016	(9)	(217)	-	(32)	(258)
Disposals for the year ended 31 March 2016	-	7	-	1	8
Balance at 31 March 2016	**(66)**	**(3,460)**	**-**	**(280)**	**(3,806)**
Depreciation charge for the six months ended 30 September 2016	(4)	(113)	-	(17)	(134)
Balance at 30 September 2016	**(70)**	**(3,573)**	**-**	**(297)**	**(3,940)**
Net book value					
At 31 March 2016	**51**	**8,100**	**20**	**73**	**8,244**
At 30 September 2016	**50**	**8,226**	**22**	**79**	**8,377**

10. Intangible assets

	Software
	£m
Cost	
Balance at 1 April 2015	289
Additions during the year ended 31 March 2016	25
Balance at 31 March 2016	**314**
Disposals during the six months ended 30 September 2016	(3)
Balance at 30 September 2016	**311**
Accumulated amortisation and impairment	
Balance at 1 April 2015	(161)
Amortisation charge for the year ended 31 March 2016	(36)
Balance at 31 March 2016	**(197)**
Amortisation charge for the six months ended 30 September 2016	(20)
Balance at 30 September 2016	**(217)**
Net book value	
At 31 March 2016	**117**
At 30 September 2016	**94**

11. Investment in associate

	Associated undertaking
	£m
At 1 April 2015	3
Share of profits for the year ended 31 March 2016	2
Dividend received for the year ended 31 March 2016	(2)
At 31 March 2016	**3**
Share of profits for the six months ended 30 September 2016	2
Balance at 30 September 2016	**5**

Details of the associated undertaking are set out below:

Company	Class of shares held	Place of business and country of incorporation	Percentage held	Principal activities
Xoserve Limited	Convertible, redeemable, ordinary share of £0.01 designated as an A Share in the capital of the company	Incorporated in England and Wales	45.57%	Gas transportation transaction services

Summary aggregated financial information for the equity accounted associated undertakings are as follows:

	30 September 2016	31 March 2016
	£m	£m
Total assets	85	74
Total liabilities	(73)	(67)
Revenue	29	52
Profit	5	4

12. Other non-current assets

	30 September 2016	31 March 2016
	£m	£m
Non-current		
Prepayments to associates	17	17
Other receivables	17	18
	34	**35**

13. Inventories

	30 September 2016	31 March 2016
	£m	£m
Raw materials & consumables	6	7
	6	**7**

There is a provision for obsolescence of £1m (31 March 2016: £1m) against inventories as at 30 September 2016.

14. Trade and other receivables

	30 September 2016	31 March 2016
	£m	£m
Current		
Trade receivables	9	15
Amount due from associates	-	2
Other receivables	-	1
Prepayments to others	51	44
Accrued income	151	160
	211	**222**

Provision for impairment of receivables

	£m
Balance at 1 April 2015	3
Credit for the year ended 31 March 2016, net of recoveries	(2)
Balance at 31 March 2016	**1**
Charge for the six months ended 30 September 2016, net of recoveries	1
Balance at 30 September 2016	**2**

Trade receivables past due but not impaired

	30 September 2016	31 March 2016
	£m	£m
Up to 3 months past due	1	2
3 to 6 months past due	-	-
Over 6 months past due	1	1
	2	**3**

The allowance account for trade receivables is used to record impairment losses unless the Gas Distribution Business is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

For further information about credit risk refer note 23.

15. Financial and other investments

	30 September 2016	31 March 2016
	£m	£m
Loan and receivables		
Loans and receivables - amounts due from fellow subsidiaries	-	13
Loans and receivables - restricted cash balances (i)	-	71
	-	**84**

i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £Nil (31 March 2016: £71m).

16. Borrowings

This note provides information about the contractual terms of the business's interest-bearing loans and borrowings, which are measured at amortised cost.

Until 21 September 2016 no debt specific to the Gas Distribution Business was in place. In this period NGG has maintained a significant level of external and group borrowing that was used to finance its operations. The combined financial information reflect a net debt position for Gas Distribution by apportioning NGG's actual net debt based on the gearing levels for NGG's regulated activities up to and including 21 September 2016. For this period this results in 61.5% of NGG net debt being allocated to Gas Distribution.

Fixed Rate Bonds with a notional value of £3,643m (bonds) were issued on 22 September 2016 by NGGF under its £6,000m Euro Medium Term Note Programme. These bonds are listed on the London Stock Exchange, are unsecured and were originally guaranteed by NGG, and subsequently by NGGD following the transfer of assets on 1 October 2016. Five bonds were issued, four Sterling and one Euro, with notionals between £650m-£850m, tenors between 5-30 years, a coupon of 0.625% on the Euro tranche and coupons between 1.125% and 2.75% on the Sterling tranches. The apportionment of NGG's debt was derecognised and these bonds included in the combined financial information from 22 September 2016.

Index linked bank debt with an accreted value of £432m and £2m of accrued interest (EIB loan) was novated from NGG plc to NGGD at a fair value of £518m on 1 October 2016. The novation agreement was signed on 30 September 2016. Six tranches were novated, which were originally issued in 2009/10, with notional values of £60m, tenors of between 7-8 years, and coupons between 0.855% and 1.43%. The bonds are fully accreting, with both principal and interest increasing in line with RPI until maturity. Interest is paid semi-annually, and the accreted principal at maturity. This debt is guaranteed by NGGF plc until the sale of the Gas Distribution Business. This bank debt has been included in the combined financial information from 30 September 2016.

The Borrowings presented in this balance sheet do not reflect the final desired debt position for the Gas Distribution Business. Following the period end, the Directors of NGG are undertaking the process of obtaining the final debt position to achieve the desired gearing position of 65%.

For more information about the changes in financing structure after the period end see Note 27. For details regarding the business' exposure to interest rate and foreign currency risk, see Note 23.

	30 September 2016	31 March 2016
	£m	£m
Current liabilities		
Bank loans	2	291
Bonds	2	77
Other loans	-	1
Borrowings from related parties	-	760
Bank overdrafts	-	4
	4	**1,133**
Non-current liabilities		
Bank loans	432	558
Bonds	3,613	3,608
Other loans	-	105
Borrowings from related parties	-	195
	4,045	**4,466**

Terms and debt repayment schedule

	30 September 2016	31 March 2016
	£m	£m
Less than one year	4	1,133
In 1-2 years	-	166
In 2-3 years	-	264
In 3-4 years	-	224
In 4-5 years	644	4
More than five years		
by instalments	-	31
other than by instalments	3,401	3,777
	4,049	**5,599**

The fair value of borrowings at 30 September 2016 was £4,270m (31 March 2016: £6,314m). Where market values were available, fair value of borrowings (Level 1) at 30 September 2016 was £3,752m (31 March 2016: £2,302m). Where market values were not available, the fair value of borrowings (Level 2) at 30 September 2016 was £518m (31 March 2016: £4,211m) calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 30 September 2016 was £4,075m (31 March 2016: £5,516m).

None of the borrowings are secured by charges over assets of the Gas Distribution Business. Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans at 30 September 2016 was £ Nil (31 March 2016: £289m) in respect of cash received under collateral agreements.

At 30 September 2016, the Gas Distribution business had bilateral committed credit facilities of £215m of which £215m was undrawn (31 March 2016: £215m of which £215m was undrawn). All of the unused facilities at 30 September 2016 were held as backup to commercial paper and similar borrowings.

17. Trade and other payables

All trade and other payables are expected to be paid in less than 12 months and hence have been presented as current payables.

	30 September 2016	31 March 2016
	£m	£m
Trade payables	36	57
Trade payables due to related parties	2	3
Social security and other taxes	8	8
Other payables	189	268
Deferred income	39	47
	274	**383**

18. Other non-current liabilities

	30 September 2016	31 March 2016
	£m	£m
Deferred income	842	839
	842	**839**

19. Deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following

	Accelerated tax depreciation	Share based payment	Financial instruments	Other net temporary differences	Tax (assets)/ liabilities
	£m	£m	£m	£m	£m
Deferred tax assets at 1 April 2015	-	(2)	(4)	(4)	(10)
Deferred tax liabilities at 1 April 2015	1,207	-	-	-	1,207
At 1 April 2015	1,207	(2)	(4)	(4)	1,197
Charged/(credited) to income statement for the year ended 31 March 2016	(65)	1	(1)	1	(64)
Charged/(credited) to other comprehensive income and equity for the year ended 31 March 2016	-	-	1	-	1
At 31 March 2016	1,142	(1)	(4)	(3)	1,134
Deferred tax assets at 31 March 2016	-	(1)	(4)	(3)	(8)
Deferred tax liabilities at 31 March 2016	1,142	-	-	-	1,142
At 1 April 2016	1,142	(1)	(4)	(3)	1,134
Charged/(credited) to income statement for the six months ended 30 September 2016	(75)	-	-	-	(75)
Derecognition of Deferred tax on cash flow hedge reserve	-	-	8	-	8
Charged/(credited) to other comprehensive income and equity for the six months ended 30 September 2016	-	-	(5)	-	(5)
At 30 September 2016	**1,067**	**(1)**	**(1)**	**(3)**	**1,062**
Deferred tax assets at 30 September 2016	-	(1)	(1)	(3)	(5)
Deferred tax liabilities at 30 September 2016	1,067	-	-	-	1,067
At 30 September 2016	**1,067**	**(1)**	**(1)**	**(3)**	**1,062**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities for 30 September 2016 £1,062m (31 March 2016: £1,134m). At the balance sheet date there were no material current deferred tax assets or liabilities.

20. Provisions

	Decommission-ing	Environment-al	Re-structuring costs	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2015	60	34	3	45	142
Provision made during the year ended 31 March 2016	-	(1)	-	-	(1)
Provisions reversed during the year ended 31 March 2016	(27)	-	(2)	-	(29)
At 31 March 2016	**33**	**33**	**1**	**45**	**112**
Provision made during the six months ended 30 September 2016	1	-	-	-	1
Provisions reversed during the six months ended 30 September 2016	(7)	(1)	-	(3)	(11)
At 30 September 2016	**27**	**32**	**1**	**42**	**102**
Current	16	1	-	5	22
Non-current	11	31	1	37	80
At 30 September 2016	**27**	**32**	**1**	**42**	**102**

Decommissioning provisions

The decommissioning provision represents £27m on 30 September 2016 (31 March 2016: £33m) of expenditure relating to the demolition of gas and LNG storage facilities expected to be incurred until 2022.

Environmental provisions

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by NGG (discounted using a real rate of 2.0%). Cash flows are expected to be incurred between 2016 and 2060.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount of the provision at 30 September 2016 was £46m (31 March 2016: £40m), being the undiscounted best estimate of the liability having regard to these uncertainties.

Restructuring provisions

At 30 September 2016 £lm (31 March 2016: £lm) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain.

21. Employee benefits

Assets and liabilities of the defined benefit plan are recognised by NG. NGG accounts for the defined benefit plan as a defined contribution plan since there are no accounting policy or contractual arrangement to split the assets and liabilities.

For the purpose of the combined financial information, the same historical policy is used and the defined benefit plans are accounted for as a defined contribution plan. As such no pension liability and asset is recognised in the combined financial information.

As at 31 March and 30 September 2016, NGG was a participating member of the National Grid UK Pension Scheme. As part of an internal reorganisation, in June 2016, National Grid announced its plans to create three separate and independent sections within the Scheme (a process known as 'sectionalisation'). Upon sectionalisation (expected to occur on or after 1 January 2017), the pension liabilities relating to employees of the Gas Distribution business will transfer to a new section of the Scheme within NGGD.

22. Financial Instruments

22. A) Derivative instruments At 31 March 2016 the derivative instruments are a proportion of the instruments of NGG that are applicable to the borrowings reflected in the combined financial information. At 30 September 2016, the hedging instruments are those which relate directly to the borrowings in Gas Distribution Business. Any derivative instruments in NGG not detailed below are excluded as they do not relate to the Gas Distribution Business.For each class of derivative instrument type the fair value amounts are as follows:

	30 September 2016			31 March 2016		
	Asset	Liabilities	Total	Asset	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Interest rate swaps	-	-	-	368	(213)	155
Cross-currency interest rate swaps	-	(4)	(4)	296	(8)	288
Inflation linked swaps	-	-	-	1	(127)	(126)
Total	**-**	**(4)**	**(4)**	**665**	**(348)**	**317**

The maturity profile of derivative financial instruments is as follows:

	30 September 2016			31 March 2016		
	Asset	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
In one year or less	-	-	-	41	(24)	17
Current	**-**	**-**	**-**	**41**	**(24)**	**17**
	-	-	-			
In 1 - 2 years	-	-	-	13	(7)	6
In 2 - 3 years	-	-	-	26	(39)	(13)
In 3 - 4 years	-	-	-	49	(39)	10
In 4 - 5 years	-	-	-	-	-	-
More than 5 years	-	(4)	(4)	536	(239)	297
Non-current	**-**	**(4)**	**(4)**	**624**	**(324)**	**300**

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

	30 September 2016	31 March 2016
	£m	£m
Interest rate swaps	-	2,692
Cross-currency interest rate swaps	643	561
Inflation linked swaps	-	469
	643	**3,722**

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

22. B) Hedging instruments

At 31 March 2016 the hedging instruments recognised are a proportion of the hedging instruments of the Gas Distribution Business that are applicable to the borrowings reflected in the combined financial information. At 30 September 2016, the hedging instruments are those which relate directly to the Gas Distribution Business. Hedge accounting has been reflected where this was the policy of NGG.

	30 September 2016	31 March 2016
Fair value hedges	**£m**	**£m**
Cross Currency interest rate/interest rate swaps	-	304
Total fair value hedges	**-**	**304**
Cash Flow hedges		
Cross-currency interest rate/interest rate swaps	(4)	100
Inflation linked swaps	-	(52)
Total cash flow hedges	**(4)**	**48**
Derivatives not in a formal hedge relationship		
Cross-currency interest rate/interest rate swaps	-	38
Inflation linked swaps	-	(74)
Derivatives not in a formal hedge relationship	**-**	**(36)**

23. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type. This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the NG Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk
- Capital risk

23. Financial risk management (continued)

A) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. Our limits are managed by the central treasury department of NG.

As at each period end, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties.

Customer credit risk

The principal commercial exposure is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. The credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, and electronic bank payments or by using major credit cards. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 14.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present the Gas Distribution Business's net exposure information.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a current legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

23. Financial risk management (continued)

A) Credit risk (continued)

Offsetting financial assets and liabilities (continued)

The Gas Distribution Business has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

As at 30 September 2016	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in combined balance sheet £m	Related amounts available to be offset but not offset in combined balance sheet: Financial instruments £m	Related amounts available to be offset but not offset in combined balance sheet: Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**
Liabilities						
Derivative financial instruments	(4)	-	(4)	-	-	(4)
	(4)	**-**	**(4)**	**-**	**-**	**(4)**

As at 31 March 2016	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in combined balance sheet £m	Related amounts available to be offset but not offset in combined balance sheet: Financial instruments £m	Related amounts available to be offset but not offset in combined balance sheet: Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	665	-	665	(263)	(283)	119
	665	**-**	**665**	**(263)**	**(283)**	**119**
Liabilities						
Derivative financial instruments	(348)	-	(348)	263	63	(22)
	317	**-**	**317**	**-**	**(220)**	**97**

B) Liquidity risks

The Gas distribution Business determines liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

The debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining current rating

23. Financial risk management (continued)

B) Liquidity risks (continued)

levels. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the debts, and may restrict the ability to draw upon facilities to access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
At 30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**
Non-derivative financial liabilities					
Borrowings	-	-	-	(4,196)	(4,196)
Interest payments on borrowings [(i)]	(74)	(75)	(75)	(1,167)	(1,391)
Other non-interest bearing liabilities	(225)	-	-	-	(225)
Derivative financial liabilities					
Derivative contracts - receipts	4	4	4	31	43
Derivative contract - payments	(12)	(12)	(12)	(61)	(97)
Total at 30 September 2016	**(307)**	**(83)**	**(83)**	**(5,393)**	**(5,866)**

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
At 31 March 2016	**£m**	**£m**	**£m**	**£m**	**£m**
Non-derivative financial liabilities					
Borrowings	(1,080)	(162)	(256)	(4,018)	(5,516)
Interest payments on borrowings [(i)]	(125)	(116)	(108)	(1,376)	(1,725)
Other non-interest bearing liabilities	(323)	-	-	-	(323)
Derivative financial liabilities					
Derivative contracts - receipts	64	121	250	402	837
Derivative contract - payments	(38)	(133)	(202)	(213)	(586)
Total at 31 March 2016	**(1,502)**	**(290)**	**(316)**	**(5,205)**	**(7,313)**

i) The interest on borrowings is calculated based on borrowings held at 30 September without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 30 September. Payments are included on the basis of the earliest date on which they can be required to be settled.

C) Interest rate risk

Interest rate risk arises from the long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

23. Financial risk management (continued)

C) Interest rate risk (continued)

The interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with the UK inflation linked revenues.

The table in note 16 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

During the six months ended 30 September 2016, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	30 September 2016				
	Fixed rate	Floating rate	RPI	Other (i)	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	3	-	-	-	3
Borrowings	(3,615)	-	(434)	-	(4,049)
Pre-derivative position	**(3,612)**	**-**	**(434)**	**-**	**(4,046)**
Derivative effect	(4)	-	-	-	(4)
Net debt position	**(3,616)**	**-**	**(434)**	**-**	**(4,050)**

	31 March 2016				
	Fixed rate	Floating rate	RPI	Other (i)	Total
	£m	£m	£m	£m	£m
Financial investments	-	71	-	13	84
Borrowings	(1,856)	(1,249)	(2,494)	-	(5,599)
Pre-derivative position	**(1,856)**	**(1,178)**	**(2,494)**	**13**	**(5,515)**
Derivative effect	1,129	(844)	32	-	317
Net debt position (ii)	**(727)**	**(2,022)**	**(2,462)**	**13**	**(5,198)**

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity and other non-interest bearing instruments.

ii) The impact of 2015/16 short-dated interest rate derivative is included.

23. Financial risk management (continued)

D) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities. The policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, The policy is to hedge a proportion of the cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange foreign exchange swaps. During the six months ended 30 September 2016 and the year ended 31 March 2016, derivative financial instruments were used to manage foreign currency risk as follows:

30 September 2016	Sterling	Euro	Dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	3	-	-	-	3
Borrowings	(3,406)	(643)	-	-	(4,049)
Pre-derivative position	**(3,403)**	**(643)**	**-**	**-**	**(4,046)**
Derivative effect	**(647)**	**643**	**-**	**-**	(4)
Net debt position	**(4,050)**	**-**	**-**	**-**	**(4,050)**

31 March 2016	Sterling	Euro	Dollar	Other	Total
	£m	£m	£m	£m	£m
Financial investments	84	-	-	-	84
Borrowings	(4,611)	(129)	(640)	(219)	(5,599)
Pre-derivative position	**(4,527)**	**(129)**	**(640)**	**(219)**	**(5,515)**
Derivative effect	**(661)**	**109**	**651**	**218**	**317**
Net debt position	**(5,188)**	**(20)**	**11**	**(1)**	**(5,198)**

There was no significant currency exposure on other financial instruments, including trade receivables and payables and other receivables and payables.

E) Capital risk management

The Gas Distribution Business was not a standalone legal entity or group of entities for each of the periods presented. The capital structure of Gas Distribution consists of Invested Capital, as disclosed in the combined statement of changes in equity, and net debt (note 26).

The Gas Distribution Business' objectives when managing capital are to safeguard ability to continue as a going concern, to remain within regulatory constraints the Gas Distribution regulated operating business and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. The Directors regularly review and manage the capital structure of NGG as appropriate in order to achieve these objectives. Prospectively, the capital structure of the Gas Distribution Business will be monitored in a similar manner.

23. Financial risk management (continued)

E) Capital risk management (continued)

Maintaining appropriate credit ratings for the regulated business is an important aspect of the capital risk management strategy and balance sheet efficiency. We monitor the balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV. This indicates the level of debt employed to fund the Gas Distribution regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for the business. At 30 September 2016 the RAV gearing ratio was 62.5% (31 March 2016: 62.5%) for Gas Transmission and 65% (31 March 2016: 65%) for Gas Distribution.

F) Fair value analysis

The financial instruments included on the combined balance sheet that are measured at fair value are detailed below. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	30 September 2016			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Derivative financial instruments	-	-	-	-
	-	-	-	-
Liabilities				
Derivative financial instruments	-	(4)	-	(4)
Total	**-**	**(4)**	**-**	**(4)**

	31 March 2016			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Derivative financial instruments	-	665	-	665
	-	**665**	**-**	**665**
Liabilities				
Derivative financial instruments	-	(303)	(45)	(348)
Total	**-**	**362**	**(45)**	**317**

23. Financial risk management (continued)

F) Fair value analysis (continued)

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

The level 3 derivative financial instruments include currency swaps where the currency forward curve is illiquid and inflation linked swaps where the inflation curve is illiquid. In valuing these instruments a third-party valuation is obtained to support each reported fair value.

The changes in value of the level 3 derivative financial instruments are as follows:

	£m
At 1 April 2015	(42)
Net losses for the year ended 31 March 2016 (i)	(3)
At 31 March 2016	(45)
Impact of derecognition for the six months ended 30 September 2016	**45**
At 30 September 2016	**-**

i) On 30 September 2016 a loss of £Nil (31 March 2016: £3m) is attributable to derivative financial instruments held at the end of the reporting period and have been recognised in finance costs in the income statement.

The impacts on profit or loss after tax of reasonably possible changes in significant level 3 assumptions are as follows:

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
+ 20 basis points change in LPI market curve (i)	-	(19)
- 20 basis points change in LPI market curve (i)	-	18

i) A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

24. Related party transactions and balance

Corporate centre costs from NG

A proportion of NG corporate centre costs are allocated to each of its subsidiaries/divisions, including the Gas Distribution business. Central corporate overheads are recharges from group head office. These costs consist of the Group Board and the Group Chief Executive costs, in addition to costs relating to the wider business such as corporate strategy, tax, treasury, financial control, investor relations and corporate affairs. Such costs are managed centrally by NG. Corporate centre costs are allocated to the four gas distribution networks to reflect the true cost of managing the gas distribution network business For both the six months ended 30 September 2016 and the year ended 31 March 2016, 17.6% of the corporate centre charges have been allocated to Gas Distribution following the historical allocation procedure and management believes that this represents the true nature of the business.

Shared costs from NGG

These costs are incurred by NGG for all of its businesses. These costs principally relate to legal, information systems and property. This allocation takes place at a cost centre level. These costs are initially recognised in the shared cost centres. Where a cost cannot be directly attributed to one of NGG businesses, certain allocation drivers are applied to the cost to split the amount between Gas Distribution and other businesses.

All the costs are classed in various business functions. NGG have defined allocation drivers for each of the business functions. A ratio based on these cost drivers are inbuilt in the underlying accounting systems.

The following costs were allocated to Gas Distribution:

Cost Description	**Driver**	**Six months ended 30 September 2016**	**Year ended 31 March 2016**
		£m	**£m**
Labour cost	Average FTE	20	46
Contractor cost	Average FTE	5	10
Legal, professional and consultancy cost	Average FTE	5	10
Computer and information systems cost	Number of supply points	6	14
Property cost	Number of sites	7	14
Communications cost	Number of supply points	6	11
Insurance cost	Number of supply points	4	10
Other costs	Various drivers, based on the nature of expenditure	6	10
Total allocations within operating expenses		**59**	**125**
Percentage of allocations within operating cost		**11%**	**12%**

24. Related party transactions and balance (continued)

Other related parties

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	National Grid Gas Plc					
	Gas Transmission Division	Metering Division	National Grid Plc	Xoserve Limited	Others	Total
Six months ended 30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Income:						
Goods and services supplied	-	13	-	-	9	22
Expenditure:						
Services received	44	-	-	19	6	69
Corporate services received	-	-	9	-	6	15
Charges in respect of pension cost	-	-	-	-	22	22
Interest paid on borrowings from related parties	-	-	-	-	3	3
	44	**-**	**9**	**19**	**37**	**109**
Outstanding balances in respect of income and expenditure						
Amounts receivable	-	-	-	17	24	41
Amounts payable	-	-	-	2	-	2
Borrowings (amounts due within one year):	-	-	-	-	-	-
Borrowings (due after more than one year):	-	-	-	-	-	-

	National Grid Gas Plc					
	Gas Transmission Division	Metering Division	National Grid Plc	Xoserve Limited	Others	Total
Year ended 31 March 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Income:						
Goods and services supplied	-	27	-	-	10	37
Expenditure:						
Services received	107	-	-	23	11	141
Corporate services received	-	-	10	-	11	21
Charges in respect of pension cost	-	-	-	-	41	41
Interest paid on borrowings from related parties	-	-	-	-	9	9
	107	**-**	**10**	**23**	**72**	**212**
Outstanding balances in respect of income and expenditure						
Amounts receivable	-	-	13	20	45	78
Amounts payable	-	-	-	3	-	3
Borrowings (amounts due within one year):	-	-	-	-	760	760
Borrowings (due after more than one year):	-	-	-	-	195	195

Details of key management compensation are provided in note 5(c)

25. Commitments and Contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets their obligations. These commitments primarily relate to future capital expenditure, operating lease rentals and energy purchase agreements which, in many cases, extend over a long period of time. Any guarantees that companies have given, where pledge assets against current obligations which will remain for a specific period are disclosed below.

Future capital expenditure

	30 September 2016 £m	31 March 2016 £m
Contracted for but not provided	**437**	**457**

Operating lease commitments

	30 September 2016 £m	31 March 2016 £m
Amounts due:		
Less than 1 year	6	7
In 1 - 2 years	5	5
In 2 - 3 years	3	3
In 3 - 4 years	3	3
In 4 - 5 years	2	2
More than 5 years	8	10
	27	**30**

Other commitments contingencies and guarantees

The value of other commitments and guarantees at 30 September 2016 amounted to £85m (31 March 2016: £85m).

Litigation and claims

Through the ordinary course of operations, various litigation, claims and investigations occur. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the results of operations, cash flows or financial position.

26. Net debt

Net debt represents the amount of cash and financial investments held, less borrowings, overdrafts and related derivatives. The movement in cash and cash equivalents is reconciled to movements in net debt.

a) Reconciliation of net cash flow to the movement in net debt

	Six months ended 30 September 2016	Year ended 31 March 2016
	£m	£m
Increase/(decrease) in financial investments and cash and cash equivalents	74	(152)
Increase/(decrease) in borrowings and related derivatives	(3,764)	247
Net interest paid on the component of net debt	48	104
Transaction with owners of Gas Distribution Business	3,814	-
Change in net debt resulting from cash flows	172	199
Changes in fair value of financial assets and liabilities and exchange movements	(36)	(10)
Net interest charge on the components of net debt	(77)	(147)
Movement in net debt (net of related derivative financial instruments) during the period	59	42
Settlement of net debt through invested capital	1,089	-
Net debt (net of related derivative financial instruments) at the start of the period	(5,198)	(5,240)
Net debt (net of related derivative financial instruments) at the end of the period	**(4,050)**	**(5,198)**

b) Composition of net debt

Net debt is made up as follows:

	30 September 2016	31 March 2016
	£m	£m
Cash, cash equivalents and financial investments	3	84
Borrowings and bank overdrafts	(4,049)	(5,599)
Derivatives	(4)	317
Total net debt	**(4,050)**	**(5,198)**

26. Net debt (continued)

c) Analysis of changes in net debt

	Cash and cash equivalents	Financial investments	Borrowings	Derivatives	Total
	£m	£m	£m	£m	£m
1 April 2015	-	236	(5,749)	273	(5,240)
Cash flow for the year ended 31 March 2016	-	(152)	381	(30)	199
Fair value gains and losses and exchange movements for the year ended 31 March 2016	-	-	(42)	32	(10)
Interest charges for the year ended 31 March 2016	-	-	(189)	42	(147)
31 March 2016	-	84	(5,599)	317	(5,198)
Cash flow for the six months ended 30 September 2016	211	71	(66)	(44)	172
Settlement of net debt through invested capital	(208)	(155)	1,846	(394)	1,089
Fair value gains and losses and exchange movements for the six months ended 30 September 2016	-	-	(133)	97	(36)
Interest charges for the six months ended 30 September 2016	-	-	(97)	20	(77)
30 September 2016	**3**	**-**	**(4,049)**	**(4)**	**(4,050)**
Balances at 30 September 2016 comprise:					
Non-current assets	-	-	-	-	-
Current assets	3	-	-	-	3
Current liabilities	-	-	(4)	-	(4)
Non-current liabilities	-	-	(4,045)	(4)	(4,049)
	3	**-**	**(4,049)**	**(4)**	**(4,050)**

27. Subsequent events

On 1 October 2016 NGG sold the trade and assets of the Gas Distribution Business to NGGD. The net assets of the business of £6,219m were sold for consideration of £11,682m received in the form of intercompany loans and receivables. NGGD entered into a number of transitional service agreements and general service agreements with NGG on 1 October 2016 in order to support the business through the transitional period.

The Directors of NGG are undertaking a process to obtain the desired gearing position of 65% regulatory gearing (debt/RAV). NGGD arranged new banking facilities totalling £2,000m, including a £1,700m term loan and Revolving Credit facility and a £300m standby letter of credit facility. These facilities will become available immediately before sale completion. Further to this, NGGD have acquired an additional £0.7bn of RPI debt under novation from NGG.

27. Subsequent events (continued)

On 8 December 2016 NG announced that it had entered into an agreement to sell a 61% equity interest in its Gas Distribution business to a consortium of long-term infrastructure investors. The consortium comprises Macquarie Infrastructure and Real Assets ("MIRA"), Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. The terms of the Transaction imply an enterprise value for the Gas Distribution business of approximately £13.8 billion, includes positive fair value adjustments of approximately £0.4 billion on debt novated from NGG in connection with the Transaction. In consideration for the sale of its equity interest, on completion NG will receive a payment of £3.6 billion in cash from the Consortium (subject to certain completion adjustments) and will own a 39% minority equity interest in NGGD.

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